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DESCRIPTION OF THE ADMINISTRATION'S LEGISLATIVE RECOMMENDATIONS UNDER THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

MARCH 9, 1982

Prepared for the use of the Committee on Ways and Means by its staff

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PREFACE

This document has been prepared for the use of the Committee on Ways and Means by its staff in conjunction with the March 15 report to the Budget Committee. This document describes the Reagan administration budget reductions requiring legislative action. All estimates were provided by either the administration or the Congressional Budget Office (CBO), and the source for each estimate is noted.

The document is divided into three parts:

Part I.—A comparative summary indicating the size of the reductions and the number of individuals impacted by the Reagan administration reductions. This part also contains tables describing the entire budget outlook under the administration's proposal and under current law as estimated by the administration and CBO.

Part II.—A detailed description of each outlay reduction, a comparison with present law, and an explanation of how the reduction is phased in. A short statement on whom the proposal affects is also provided.

Part III.—A detailed description of each revenue proposal, a comparison with present law, and the budget effect of each proposal. The material in this part was prepared by the staff of the Joint Committee on Taxation. In most cases, the Treasury has provided a technical explanation of the proposals, and the description provided in this part is based on that explanation. In some cases, however, the material is based on the general explanation provided in the budget documents.

Part IV. A description of the debt management proposals.

The document concludes with three appendices:

Appendix A.—A short description of the Budget and Impoundment Control Act along with several excerpts from the act.

Appendix B.—The Committee on Ways and Means' March 15, 1981, report to the Budget Committee with respect to fiscal year 1982.

Appendix C.—CBO reestimates of the savings for selected administration proposals in AFDC, SSI, and medicare.

The committee wishes to acknowledge the assistance of the Congressional Research Service in preparing this document.

This material has been assembled in a limited amount of time in order that Members may have all information currently available about the reductions as soon as possible. As more information becomes available, the data in this document may necessarily have to be revised.

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PART I

SUMMARY TABLES DESCRIBING THE LEGISLATIVE CHANGES RECOMMENDED BY THE PRESIDENT FOR PROGRAMS UNDER THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS AND THE ENTIRE BUDGET OUTLOOK UNDER CURRENT LAW AND THE ADMINISTRATION'S BUDGET

TABLE 1.—ADMINISTRATION ESTIMATES OF LEGISLATIVE CHANGES RECOMMENDED BY THE PRESIDENT FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[In millions of dollars]

	1982	1983	1984	1985
Social security (OASDI)	0	0	0	0
Medicare [1]	−240	−1,747	−4,195	−6,682
Unemployment compensation	−5	−36	−63	−60
Trade adjustment assistance	−26	−108	−81	−65
AFDC and child support [2]	−201	−1,341	−1,306	−1,411
SSI [2]	−101	−286	−489	−708
Title XX	0	−476	−526	−626
Low income energy assistance [3]	0	−575	−575	−575
Child welfare [4]	0	−132	−177	−222
Total	−573	−4,701	−7,412	−10,349

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[1] Not including revenue increase from covering Federal workers under medicare hospital insurance.
[2] Does not include medicaid or food stamp impact of these changes.
[3] Assumes a current law base of $1,875 million for fiscal years 1983 to 1985 respectively.
[4] Estimated from CBO baseline projection.

TABLE 2.—DETAILED SUMMARY OF OUTLAY REDUCTIONS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

ADMINISTRATION ESTIMATES

[In millions of dollars]

	1982	1983	1984	1985
MEDICARE				
Proposed legislation:				
Index SMI deductible to the CPI	0	−65	−145	−230
Delay medicare coverage for 1 month	−29	−145	−183	−217
Establish coinsurance for home health agency services	0	−35	−55	−60
Make medicare coverage secondary to private group insurance for the working aged	−51	−303	−390	−446
2-percent reduction in medicare hospital reimbursement	−50	−653	−850	−950
Eliminate waiver of provider liability	−2	−10	−10	−10
Update medicare physician fee limits in October rather than July	−45	−210	−235	−230
Cut projected increase in physician fee screen from 7.8 to 5 percent	−10	−35	−45	−55
Change radiologist-pathologist reimbursement	−30	−160	−210	−250
Repeal the provider utilization review requirement	−13	−83	−86	−89
Other proposals	−10	−48	−36	−45
Reform health care financing (future legislation)	0	0	−1,950	−4,100
Total, medicare proposed legislation	−240	−1,747	−4,195	−6,682
Regulatory proposals:				
Eliminate subsidy for private hospital rooms	−2	−54	−75	−80
Set single reimbursement limits for hospital-based and free-standing SNF and home health agencies	0	−18	−46	−46
Hospital-based physicians	−21	−63	−73	−84
Improve contractor utilization review activities	0	−330	−385	−440
Eliminate duplicate payments for physicians in hospital outpatient departments	−35	−160	−225	−270
Establish composite reimbursement rates for renal dialysis service	−35	−130	−179	−224
Total, medicare regulatory initiatives	−93	−755	−983	−1,144
Revenue increase:				
Cover Federal workers under medicare hospital insurance	0	−619	−844	−933
Total impact on HI Trust Fund (not taking into account interest)	−333	−3,740	−6,866	−9,692
UNEMPLOYMENT COMPENSATION				
Round benefits to lower dollar	0	−6	−33	−30

TABLE 2.—DETAILED SUMMARY OF OUTLAY REDUCTIONS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS—Continued

ADMINISTRATION ESTIMATES

[In millions of dollars]

	1982	1983	1984	1985
Reduce benefits to involuntarily discharged military personnel	−5	−30	−30	−30
Total, unemployment compensation	−5	−36	−63	−60
TRADE ADJUSTMENT ASSISTANCE				
Eliminate cash benefits except to those in approved training programs	−26	−108	−81	−65
AFDC AND CHILD SUPPORT [1]				
Require States to have community work experience program mandate	−6	−49	−82	−70
Job search for AFDC applicants	−35	−145	−149	−152
Sanction voluntary quit—WIN exempt	0	−1	−1	−1
Provide unemployed parent benefits only if parent participates in workforce	−23	−86	−79	−73
End benefits for parents when youngest child reaches 16	−12	−47	−48	−48
Prorate shelter and utilities for AFDC families in large households	−45	−174	−177	−178
Include income of all unrelated adults in computing AFDC benefits	−20	−69	−70	−70
Include all minor children except SSI disabled	−16	−63	−64	−64
Eliminate military service as reason for AFDC eligibility	−4	−16	−17	−17
Round benefits to lower dollar	−2	−10	−10	−10
Prorate first month's benefit	−3	−14	−14	−14
Eliminate AFDC emergency assistance program	0	−60	−60	−60
Require States to count energy assistance as income	0	−175	−175	−175
Eliminate reimbursement to States for erroneous payments	0	−234	−105	−167
Put administration into a block grant	0	−40	−89	−137
Restructure funding of the CSE program	−25	−100	−100	−100
Require States retain 6 percent fee for non-AFDC cases	−10	−45	−51	−59
Increase collections	0	−12	−15	−16
Total, AFDC and child support	−201	−1,341	−1,306	−1,411
SUPPLEMENTAL SECURITY INCOME [1]				
Prorate the first month's SSI benefit from the date of application or date of eligibility (in the case of aged persons)	−10	−40	−40	−40
Restrict the definition of permanent disability to a prognosis of at least 24 months of disability	−5	−45	−85	−130

TABLE 2.—DETAILED SUMMARY OF OUTLAY REDUCTIONS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS—Continued

ADMINISTRATION ESTIMATES

[In millions of dollars]

	1982	1983	1984	1985
Ensure that the definition of disability is based on a preponderance of medical rather than other factors	−10	−75	−145	−240
For new beneficiaries no longer disregard the first $20 of income in setting benefit levels	0	−15	−75	−120
Recover overpayments to individuals from available Social Security benefits	0	−16	−17	−18
Continue to phase out transitional hold harmless payments	−23	−30	−37	−45
Rounding	−3	−20	−45	−75
COLA coordination	−50	−45	−45	−40
Total, SSI	−101	−286	−489	−708
SOCIAL SERVICES BLOCK GRANT (TITLE XX)				
Reduced funding	0	−476	−526	−626
LOW INCOME ENERGY ASSISTANCE [2]				
Reduced funding	0	−575	−575	−575
CHILD WELFARE [3]				
Convert foster care, adoption assistance and child welfare services into a block grant with reduced funding	0	−132	−177	−222

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[1] Does not include medicaid or food stamp impact of these changes.

[2] Assumes a current law base of $1,875 million for fiscal years 1983 to 1985 respectively.

[3] Estimated from CBO baseline.

Note: The Congressional Budget Office has completed reestimates for some of the administration's proposals. These are shown in appendix C. The major differences between the estimates of the administration and the CBO are in the AFDC program where CBO projects lower savings than the administration for the work requirement provisions and the provision to count low income energy assistance as income for computing the AFDC benefit. For these provisions which have been reestimated by CBO, CBO estimates lower savings in the AFDC program of $73, $352, $304, and $288 million for fiscal years 1982 to 1985, respectively. In addition, the CBO analysis indicates that if the work requirement provisions were evaluated independently of the combined welfare administration block grant, these provisions would increase, not reduce, Government outlays. The estimate of savings for counting low income energy assistance depends on the actual legislative language of the provision. CBO, in preparing this estimate, assumed that the energy grant is given in 1 month and only affects the AFDC benefit in that 1 month.

The CBO projects higher savings of $66, $92, and $124 million for fiscal years 1983 to 1985, respectively, for the combined welfare administration block grant provision as compared to the estimate of the administration. The reason for this is that the administration projects a slight decline in AFDC administrative costs in fiscal year 1983 compared to fiscal year 1982 whereas the CBO projects an increase in administrative costs under current law. Since the block grant is approximately 95 percent of 1982 costs and is unindexed, the savings relative to current law are different for the CBO as compared to the administration.

TABLE 3.—NUMBER OF INDIVIDUALS/FAMILIES AND AVERAGE DOLLAR LOSS PER YEAR FOR PROPOSED MAJOR CHANGES

ADMINISTRATION ESTIMATES

Proposed Reductions	Number of individuals/families	Average dollar loss (full-year basis)
Unemployment compensation: Reduced benefits to involuntarily discharged military.	14,000 individuals	2,140.
Trade adjustment assistance: Elimination of cash benefits except to those in approved training programs.	48,650 individuals	2,220.
SSI:		
Restrict the definition of permanent disability to a prognosis of at least 24 months of disability:		
Fiscal year 1983	35,000 individuals	2,580.
Fiscal year 1984	60,000 individuals	2,750.
Ensure that the definition of disability is based on a preponderance of medical rather than other factors:		
Fiscal year 1983	80,000 individuals	2,580.
Fiscal year 1984	135,000 individuals	2,750.
For new beneficiaries no longer disregard the first $20 of income in setting benefit levels:		
Fiscal year 1983	300,000 individuals	240.
Fiscal year 1984	675,000 individuals	240.
Prorate first month's benefits:		
Fiscal year 1983	550,000 individuals	73.
Fiscal year 1984	550,000 individuals	73.
COLA coordination:		
Fiscal year 1983	1,665,000 individuals	30.
Fiscal year 1984	1,620,000 individuals	32.
AFDC:		
Count income of unrelated adults	41,000 families ineligible 2,000 families with reduced benefits.	2,970.
Eliminate military service as reason for AFDC eligibility.	10,000 families ineligible	2,950.
Include parents and all minor children except SSI.	28,000 families ineligible 74,000 families with reduced benefits.	1,140.
Remove parent's needs when youngest child is 16.	1,000 families ineligible.	NA.
	142,000 families with reduced benefits.	NA.
	35,000 families with increased benefits.	NA.

TABLE 3.—NUMBER OF INDIVIDUALS/FAMILIES AND AVERAGE DOLLAR LOSS PER YEAR FOR PROPOSED MAJOR CHANGES—Continued

ADMINISTRATION ESTIMATES

Proposed Reductions	Number of individuals/families	Average dollar loss (full-year basis)
Prorate shelter and utilities	14,000 families ineligible 459,000 families with reduced benefits.	680
Mandate job search	150,000 families diverted from welfare.	NA.
Prorate first month's benefits	192,000 families with reduced benefits.	135.

NA—Not available.

Note: The average dollar loss was computed by committee staff on the basis of the total outlay savings and the number of individuals impacted. These numbers were supplied by the administration. In the AFDC program the impact on individuals includes the State outlay savings. For the SSI provisions which affect new beneficiaries, the concept of an average dollar loss is the average monthly loss times 12. Because some beneficiaries are affected for only 1 month in a given fiscal year, the outlay savings will not be equal to the number of individuals times the average loss. The families made ineligible in the AFDC program and the individuals denied SSI benefits because of a more restricted disability definition will also lose medicaid benefits in addition to their loss of cash benefits.

TABLE 4.—ADMINISTRATION OUTLAY REDUCTIONS AS A PERCENT OF CBO BASELINE PROJECTIONS

	1983	1984	1985
Social security	0	0	0
Medicare	4.3	7.7	10.0
Trade adjustment assistance	90.0	95.0	100.0
Unemployment compensation	0.2	0.3	0.3
AFDC and child support	17.0	16.5	17.2
Earned income tax credit	0	0	0
SSI	3.2	5.9	7.5
Low income energy assistance	30.7	30.7	30.7
Social services block grant (title XX)	19.4	21.0	24.1
Child welfare, foster care and adoption assistance	25.6	31.8	31.8
Total	2.0	2.8	3.6

Note: This table expresses the administration's proposed budget reductions using OMB estimates as a percent of the baseline CBO projections for the various programs.

TABLE 5.—OUTLAY REDUCTIONS ENACTED DURING 1981 PLUS ADMINISTRATION RECOMMENDATIONS IN FISCAL YEAR 1983 BY PROGRAM

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Social security	−1,702	−2,880	−3,742
Medicare	−1,215	−3,776	−6,654
Trade adjustment assistance	−626	−488	−351
Unemployment compensation	−2,448	−4,281	−3,854
AFDC and child support	−860	−2,199	−2,188
Supplemental security income	−28	−243	−432
Low income energy assistance	0	−575	−575
Social services block grant (title XX)	−685	−1,224	−1,330
Child welfare, foster care and adoption assistance	−3	−132	−177
Total	−7,567	−15,798	−19,303

TABLE 6.—CUMULATIVE (ENACTED 1981 CHANGES PLUS RECOMMENDED CHANGES) PERCENTAGE REDUCTION IN OUTLAYS

	1982	1983	1984
Social security	1.1	1.6	2.0
Medicare	2.4	6.4	9.8
Trade adjustment assistance	81.3	97.6	100.0
Unemployment compensation	9.2	15.6	15.1
AFDC and child support	9.8	24.0	23.3
SSI	0.4	2.7	5.3
Low income energy assistance	0	30.7	30.7
Social services block grant (title XX)	22.2	38.3	40.2
Child welfare, foster care and adoption assistance	0.6	25.6	31.8
Total	2.9	5.5	6.2

TABLE 7.—CBO BASELINE REVENUE PROJECTIONS BY SOURCE

[By fiscal year, in billions of dollars]

	Actual 1981	Estimated 1982	Baseline projection				
			1983	1984	1985	1986	1987
Individual income taxes	285.6	300	303	316	344	367	396
Corporate income taxes	61.1	50	51	62	63	64	73
Social insurance taxes	186.4	209	227	250	282	313	339
Excise taxes:							
Windfall profit taxes	23.3	23	21	21	20	20	20
Other excise taxes	17.5	18	19	20	16	16	16
Estate and gift taxes	6.8	7	6	6	5	5	4
Customs duties	8.1	9	9	9	10	10	10
Miscellaneous revenues	13.8	15	16	18	19	19	19
Total current law revenues	602.6	631	652	701	759	814	877
Extension of Highway Trust Fund taxes					4	4	4
Total baseline revenues	602.6	631	652	701	763	818	882

Note: Details may not add to total because of rounding.

TABLE 8.—ADMINISTRATION'S ESTIMATES OF BUDGET EFFECTS OF REVENUE PROPOSALS

[Fiscal years, in billions of dollars]

	1982	1983	1984	1985	1986	1987
Income tax provisions:						
1. Completed contract method of accounting	(1)	2.0	4.5	4.6	4.1	3.9
2. Repeal of business energy tax credits		0.1	0.3	0.5	0.5	0.5
3. Limitation on tax-exempt revenue bonds		−0.2	0.3	1.1	2.1	3.2
4. Modified coinsurance	0.9	1.9	2.2	2.5	2.7	3.0
5. Construction period interest and taxes		0.5	1.0	1.0	1.0	0.9
6. Corporate minimum tax		2.3	4.8	4.5	3.7	3.8
7. Enterprise zones			−0.1	−0.5	−0.9	−1.3
Total, income tax provisions	0.9	6.7	12.9	13.7	13.2	14.0
Tax collection and enforcement provisions:						
1. Withholding on interest and dividends		2.0	1.3	1.4	1.6	1.9
2. Acceleration of corporate income tax payments		1.4	1.7	0.9	0.2	−0.2
3. IRS staff increases [2]	0.2	2.1	2.4	2.4	1.3	0.6
4. Debt collection proposals [3]	1.3	2.4	2.4	2.8	2.8	2.8
Total, tax collection and enforcement provisions	1.5	7.8	7.9	7.5	5.8	5.1
Excise taxes:						
1. Airport/airway trust fund taxes	0.1	1.2	1.4	1.5	1.7	1.9
2. Extension of highway trust fund taxes				4.2	4.4	4.5
3. New Federalism trust fund (transfer of certain excises)						
Total, excise taxes	0.1	1.2	1.4	5.7	6.1	6.5
Employment taxes:						
1. Extension of social security hospital insurance taxes to Federal employees		0.6	0.8	0.9	1.1	1.2
2. Revised railroad retirement fund [4]		−1.7	−1.8	−1.9	−2.0	−2.1
Total, employment taxes		−1.1	−1.0	−1.0	−1.0	−1.0
User charges: [5]						
1. Coast Guard user fees		0.2	0.8	0.8	0.8	0.8
2. Navigation user fees		0.4	0.5	0.5	0.5	0.5
3. Nuclear waste disposal fees		0.3	0.5	0.5	0.6	0.7
4. Energy regulatory fees		(1)	(1)	(1)	(1)	(1)
5. Recreation fees		0.1	0.1	0.1	0.1	0.1

TABLE 8.—ADMINISTRATION'S ESTIMATES OF BUDGET EFFECTS OF REVENUE PROPOSALS—Continued

[Fiscal years, in billions of dollars]

	1982	1983	1984	1985	1986	1987
6. Patent and trademark fees		(1)	(1)	(1)	0.1	0.1
7. Passport and visa fees	(1)	0.1	0.1	0.1	0.1	0.1
8. Other user fees		0.1	0.2	0.2	0.2	0.2
Total, user charges	(1)	1.3	2.1	2.2	2.3	2.4
Grand total, all provisions	2.5	15.9	23.3	28.1	26.5	27.0

[1] Gain of less than $50 million.

[2] The figures shown as line items represent only increases in revenue. In addition, outlays would be increased by $0.2 billion annually.

[3] Other than IRS staff increases.

[4] The figures shown as line items represent only reductions in revenue. In addition, outlays would be reduced by $2.0 billion in fiscal year 1983, $2.2 billion in 1984, $2.4 billion in 1985, $2.5 billion in 1986, and $2.7 billion in 1987.

[5] Most of these items are shown in the budget as offsetting receipts. The exceptions are passport and visa fees.

Note: Details may not add to totals because of rounding.

Source: U.S. Treasury Department and Office of Management and Budget.

TABLE 9.—CBO BASELINE PROJECTIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[In billions of dollars]

	1982	1983	1984	1985
Social security	158.0	173.6	188.1	203.0
OASI	(139.3)	(153.6)	(167.2)	(182.5)
DI	(18.8)	(20.0)	(20.9)	(21.5)
Medicare	48.9	58.2	66.7	77.9
Hospital insurance	(33.4)	(39.9)	(45.3)	(52.9)
Supplemental medical insurance	(15.5)	(18.2)	(21.4)	(25.0)
Trade adjustment assistance	0.2	0.1	0.1	0.1
Unemployment compensation	24.3	23.3	21.7	21.9
AFDC and child support	8.1	8.3	8.5	9.0
Earned income tax credit	1.3	1.2	1.1	1.1
SSI	8.0	[1] 9.1	8.3	9.5
Low income energy assistance	1.8	1.9	2.0	2.3
Social services block grant (title XX)	2.4	2.5	2.5	2.6
Child welfare, foster care and adoption assistance	0.5	0.5	0.5	0.6
Total	253.5	278.6	299.6	328.1

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[1] While automatic cost-of-living increases in benefits account for some of this increase in outlays, the 1983 outlays reflect 13 months of benefit payments because the October 1983 payment date falls on a weekend, and therefore will be paid in fiscal year 1983.

TABLE 10.—ADMINISTRATION RECOMMENDATIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[Outlays, in billions of dollars]

	1982	1983	1984	1985
Social security	154.6	173.5	188.5	202.3
Medicare	45.7	51.0	56.3	63.0
Trade adjustment assistance	0.1	(1)	0	0
Unemployment compensation	24.8	22.4	19.6	17.8
AFDC and child support	8.1	6.8	6.9	7.0
Earned income tax credit	1.3	1.2	1.1	1.0
SSI	7.9	[2] 8.9	7.8	8.6
Low income energy assistance	1.9	1.3	1.3	1.3
Social services block grant (XX)	2.9	2.0	2.0	2.0
Child welfare, foster care and adoption assistance	0.5	0.4	0.4	0.4
Total	247.8	267.5	283.9	303.4

[1] Less than $50 million.

[2] While automatic cost-of-living increases in benefits account for some of this increase in outlays, the 1983 outlays reflect 13 months of benefit payments because the October 1983 payment date falls on a weekend, and therefore will be paid in fiscal year 1983.

Note: This table shows administration estimates for these programs taking into account the administration's outlay reductions for these programs. The administration outlays have been reduced by the amount of medicare premiums which are estimated to be $4.4 billion in fiscal year 1983 and $5.4 billion in fiscal year 1985.

TABLE 11.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL GOVERNMENT OUTLAYS FOR SELECTED YEARS

CBO BASELINE, COMPARED WITH ADMINISTRATION RECOMMENDATIONS FOR FISCAL YEARS 1983 AND 1985

[In billions of dollars]

	1975	1977	1979	1981	1983		1985	
					CBO	Administration [1]	CBO	Administration [1]
Social security (including medicare)	79.5	106.6	131.7	182.0	231.9	224.5	280.9	265.3
Unemployment compensation and trade adjustment assistance	13.3	15.1	10.3	19.0	23.4	22.4	22.0	17.8
Public assistance and social services (AFDC, SSI, title XX, EITC, low income energy assistance and child welfare programs)	11.9	14.1	16.4	21.9	23.2	20.6	25.1	20.3
Interest	30.9	38.0	52.6	82.5	127.2	112.5	172.0	119.7
National defense	85.6	97.5	117.7	159.8	213.6	221.1	263.0	292.1
Veterans' benefits	16.6	18.0	19.9	23.0	24.7	24.4	27.0	26.9
All other	88.4	113.4	145.0	169.0	165.0	132.1	181.0	126.4
Total	326.2	402.7	493.6	657.2	808.9	757.6	971.0	868.5

[1] OMB estimates. The administration outlays have been reduced by the amount of medicare premiums which are estimated to be $4.4 billion in fiscal year 1983 and $5.4 billion in fiscal year 1985.

TABLE 12.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL OUTLAYS IN PERCENTAGE TERMS FOR SELECTED YEARS

CBO BASELINE COMPARED WITH ADMINISTRATION RECOMMENDATIONS FOR FISCAL YEARS 1983 and 1985

					1983		1985	
	1975	1977	1979	1981	CBO	Administration[1]	CBO	Administration[1]
Social security (including medicare)	24.4	26.5	26.7	27.7	28.7	29.6	28.9	30.5
Unemployment compensation and trade adjustment assistance	4.1	3.7	2.1	2.9	2.9	3.0	2.3	2.0
Public assistance and social services (AFDC, SSI, title XX, EITC, low income energy assistance and child welfare programs)	3.6	3.5	3.5	3.3	2.9	2.7	2.6	2.3
Interest	9.5	9.4	10.7	12.6	15.7	14.8	17.7	13.8
National defense	26.2	24.2	23.8	24.3	26.4	29.2	27.1	33.6
Veterans' benefits	5.1	4.5	4.0	3.5	3.1	3.2	2.8	3.1
All other	27.1	28.2	29.2	25.7	20.4	17.4	18.6	14.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] OMB estimates.

TABLE 13.—THE BUDGET OUTLOOK UNDER CURRENT POLICIES AND THE ADMINISTRATION'S BUDGET

[By fiscal year, in billions of dollars]

	1981 actual	1982 estimate	Projections		
			1983	1984	1985
CBO baseline projections:					
Revenues	602	631	652	701	763
Outlays	660	740	809	889	971
Deficit	58	109	157	188	208
Administration current services baseline with proposed defense spending growth (OMB estimates):					
Revenues	599	626	653	704	778
Outlays	657	728	799	869	946
Deficit	58	101	146	165	168
Administration's budget (OMB estimates):					
Revenues	599	627	666	723	797
Outlays	657	725	758	806	869
Deficit	58	99	92	83	72
Administration's budget as reestimated by CBO:					
Revenues	599	628	660	716	776
Outlays	657	739	781	845	916
Deficit	58	111	121	129	140

Note: The CBO baseline projections reflect real growth in defense outlays of 4.5 percent in 1982 and 1983, 2.2 percent in 1984, and a slight decline thereafter. The discretionary programs are expected to keep pace with inflation.

The CBO reestimates of the Administration's budget reflect different projections about economic assumptions and different assumptions about current law spending. These reestimates do take into account the President's policies. For example, the CBO reestimates assume the President's real rate of growth in defense spending. However, their economic projections are assumed to be the same as the baseline projections.

TABLE 14.—THE ADMINISTRATION'S DEFICIT REDUCTION PROPOSALS

OMB ESTIMATES

[By fiscal year, in billions of dollars]

	1983	*1984*	*1985*	*Total*	*Percent*
Revenues:					
Tax revisions	7.2	13.5	13.5	34.1	14.3
Increases in user fees	1.3	1.4	1.6	4.3	1.8
Improved tax collection and enforcement	5.5	5.5	4.7	15.7	6.5
Entitlement reform	−1.1	−1.0	−1.0	−3.1	−1.3
Subtotal	12.8	19.4	18.8	51.0	21.3
Outlays:					
Entitlement savings	12.8	18.1	23.8	54.7	22.8
Management initiatives	14.8	18.5	19.2	52.5	22.0
Increases in user fees	1.2	2.1	2.2	5.5	2.3
Reductions in discretionary and other programs	14.2	26.1	35.3	75.6	31.6
Subtotal	43.0	64.7	80.5	188.3	78.7
Total reductions	55.9	84.1	99.3	239.3	100.0

TABLE 15.—ADMINISTRATION ESTIMATES OF DEFICIT REDUCTION MEASURES BY MAJOR PROGRAM

[In billions]

	Fiscal year—	
	1983	1984
I. BUDGET CUTS		
A. Entitlements:		
1. Medicaid	$2.0	$2.3
2. Medicare	2.5	5.1
3. AFDC	1.2	1.1
4. Child support enforcement	.1	.2
5. Food stamps	2.4	2.8
6. Child nutrition	.3	.4
7. Welfare administration	.3	.4
8. SSI	.3	.5
9. Civil service retirement	.5	1.1
10. Military retirement	.1	.2
11. Railroad retirement	.2	.4
12. Federal employees compensation	.1	.1
13. Unemployment benefits	.1	.1
14. VA	.2	.5
15. Guaranteed student loans	.8	1.1
16. Medicare for Federal employees [1]	.6	.8
Subtotal	11.7	17.0
B. Discretionary programs:		
1. Energy R&D, conservation and regulation	.9	NA
2. Natural resource and environment	.7	NA
3. Transportation (highways, Urban Mass Transit Act, railroads)	1.6	NA
4. Elementary and secondary education	1.0	NA
5. Training and employment (CETA)	2.2	NA
6. Social services: [2]		
Title XX	.5	NA
Other	.5	NA
7. Housing assistance	.6	NA
8. Low-income energy assistance	.6	NA
9. Other health and income security	1.3	NA
10. Net interest	2.7	NA
11. All other	1.7	NA
Subtotal	14.2	....
Total	25.9	....

TABLE 15.—ADMINISTRATION ESTIMATES OF DEFICIT REDUCTION MEASURES BY MAJOR PROGRAM—Continued

	Fiscal year—	
	1983	1984
II. MANAGEMENT EFFICIENCIES		
A. Management initiatives:		
1. Waste, fraud, and abuse	$1.0	$1.0
2. Improved debt collection	1.0	1.0
3. Federal property disposition	1.0	4.0
4. Accelerated Outer Continental Shelf leasing	8.4	7.8
5. Federal pay restraint:		
Defense	.6	1.4
Nondefense	.8	1.6
6. Asset sales	1.3	1.0
7. FHA mortgage insurance premiums	.7	.7
Subtotal	14.8	18.5
B. User fees and excise taxes:		
1. Coast Guard user fees	.2	.8
2. Navigation user fees	.4	.5
3. Nuclear waste disposal fees	.3	.5
4. Recreation fees	.1	.1
5. Passport and visa fees	.1	.1
6. Airport/airway trust fund taxes	1.2	1.4
7. Other user fees	.1	.2
Subtotal	2.5	3.5
Total	17.3	21.9

TABLE 15.—ADMINISTRATION ESTIMATES OF DEFICIT REDUCTION MEASURES BY MAJOR PROGRAM—Continued

	Fiscal year—	
	1983	1984
III. TAX INCREASES		
A. Tax revisions:		
1. Completed contract accounting	$2.0	4.5
2. Energy tax credits for business	.1	.3
3. Tax-exempt industrial development bonds	—.2	.3
4. Modified coinsurance	1.9	2.2
5. Construction period interest and taxes	.5	1.0
6. Minimum corporate tax	2.3	4.8
7. Enterprise zones	0	—.1
Subtotal	6.7	12.9
B. Improvements in tax collection:		
1. Accelerate corporate tax payments	1.4	1.7
2. Increase IRS staff	2.1	2.4
3. Withholding interest and dividends	2.0	1.3
Subtotal	5.5	5.4
Total	12.2	18.3
Proposed total deficit reductions	55.9	....

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[1] This is a net revenue increase, not a budget cut.

[2] The administration classifies title XX as discretionary when this program historically has been an entitlement.

NA=Not available.

TABLE 16.—COMPARISON OF ADMINISTRATION AND CBO LONG-RUN ECONOMIC ASSUMPTIONS

[By calendar year]

	1982	1983	1984	1985	1986	1987
Gross national product (GNP):						
Current dollars (percent change, year to year):						
President's February budget	8.1	11.5	10.2	9.7	9.2	9.0
CBO baseline	7.5	11.9	10.4	9.7	9.4	9.1
Constant (1972) dollars (percent change, year to year):						
President's February budget	0.2	5.2	5.0	4.7	4.4	4.3
CBO baseline	−0.1	4.4	3.6	3.5	3.5	3.5
Prices:						
GNP deflator (percent change, year to year):						
President's February budget	7.9	6.0	5.0	4.7	4.6	4.5
CBO baseline	7.5	7.3	6.6	6.0	5.7	5.4
Consumer Price Index (percent change, year to year):						
President's February budget	7.3	6.0	4.6	4.8	4.6	4.5
CBO baseline	7.5	6.9	6.9	6.4	6.0	5.7
Unemployment rate (percent, annual average):						
President's February budget	8.9	7.9	7.1	6.4	5.8	5.3
CBO baseline	8.9	8.0	7.4	7.2	6.9	6.7
Interest rate (91-day Treasury bills, percent, annual average):						
President's February budget	11.7	10.5	9.5	8.5	7.0	5.5
CBO baseline	12.0	13.2	11.3	9.4	8.7	8.1
"Real" interest rate [1]						
President's February budget	3.8	4.5	4.5	3.8	2.4	1.0
CBO baseline	4.5	5.9	4.7	3.4	3.0	2.7

[1] "Real" interest rates are defined here as the 91-day Treasury bill rate minus the rate of inflation as measured by the GNP deflator.

Note: The Administration's assumptions include the presumed effects of its new budget initiatives. The CBO economic assumptions are based on estimates of current policy taxes and spending.

PART II

Description of Administration Proposals To Reduce Spending for Programs Under the Jurisdiction of the Committee on Ways and Means

AID TO FAMILIES WITH DEPENDENT CHILDREN

At the request of the administration, the Congress enacted significant changes in the aid to families with dependent children (AFDC) program as part of the Omnibus Budget Reconciliation Act of 1981. When that legislation was enacted, the Congressional Budget Office estimated that fiscal year 1982 savings in the AFDC program would total $1,026 million. Recent reestimates by CBO show these savings reduced to $573 million. The major reasons for this reduction are: different assumptions about work behavior—CBO now assumes a reduction in work effort; no State has decided to take up the option of counting food stamps in determining the AFDC benefit, and only one State has decided to count housing subsidies; revised assumptions about the amount of earned income tax credit which will be assumed in determining AFDC benefits; and revised assumptions about administrative savings. Savings have also been reduced because of delayed implementation by the States of changes that were to go into effect October 1, 1981, but which have been put off for a variety of reasons.

The administration is proposing substantial additional reductions in the AFDC program as part of its 1983 budget recommendations. The changes in authorizing legislation which it proposes would result in savings of $166 million in fiscal year 1982, and $1,183 million in 1983, according to the administration.

The administration is also recommending the termination of Federal funding for the work incentive (WIN) program. Although that program is not under the jurisdiction of the Committee on Ways and Means, it is directly tied to AFDC and to the welfare of AFDC recipients. WIN is charged with the responsibility of administering the AFDC work registration requirement, and of providing employment, training and supportive services to assist AFDC recipients in moving into jobs.

WIN program funding was substantially reduced in the 1982 continuing resolution. The WIN funding level was $385 million in 1979, and $365 million in 1979 and 1980. The amount provided for 1982 in the continuing resolution is $246 million, a reduction of nearly one-third.[1]

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[1] In its original budget recommendation for 1982, the administration requested a funding level of $364,803,000 for WIN. The House Appropriations Committee provided that amount in the Labor-HHS appropriation bill which it reported September 23, 1981. However, during the floor consideration of the appropriation bill, the House adopted an amendment to reduce the WIN appropriation to $321,025,000. This was the amount recommended by the administration in its September budget amendment. The bill reported by the Senate Appropriations Committee provided for an even larger cut, recommending a WIN funding level of $256 million. The committee report stated that no funds were being included for work and training programs "in the expectation that CETA funds can better be targeted to welfare recipients." The Continuing Resolution which was signed by the President on December 15 included the Senate spending level, and also made WIN subject to the across-the-board 4 percent spending reduction which was applied to most nonentitlement domestic programs. As noted above, this resulted in a WIN funding level for 1982 of $245,760,000.

The loss in funding has resulted in a major cutback in State WIN program operations in 1982, and there is some question as to whether the program can maintain a meaningful level of activity in a number of States. In the 1983 budget appendix the administration states: "In 1983, States will be able to continue the WIN program with resources from the Social Service block grant from the Department of Health and Human Services." (The amount requested for title XX for 1983 is $1,974 million, reduced from the 1982 level of $2,400 million.)

Changes recommended in the AFDC program, as described in administration budget documents, are:

Require States to establish community work experience (CWEP) programs.

Current law and background:

Last year the administration proposed the enactment of legislation requiring States to establish community work experience (CWEP) programs, under which AFDC recipients could be required to work in projects "which serve a useful public purpose" in exchange for their AFDC benefits. The Congress enacted the legislation essentially as proposed, but made the program optional with the States, rather than mandatory.

The CWEP provision of the 1981 Omnibus Reconciliation Act specifies that community work experience programs must be designed to improve the employability of participants through actual work experience and training, and to enable individuals to move into regular employment. Participants may not be required to work in excess of the number of hours which, when multiplied by the greater of the Federal or the applicable State minimum wage, equals the sum of the amount of aid payable to the family.

The individuals who may be required to participate in a CWEP project are generally the same as those who must register for the work incentive (WIN) program. WIN requires the registration of all recipients unless they are: children under age 16 or in school full time; ill, incapacitated, or elderly; too far from a project to participate; needed at home to care for a person who is ill; a caretaker relative providing care on a substantially full-time basis for a child under age 6; employed at least 30 hours a week; or the parent of a child if the other parent is required to register (unless that parent has refused). CWEP also excludes individuals who are employed 80 hours a month and earning at least the applicable minimum wage. In addition, mothers with no children under age 3 (rather than 6) may be required to participate in CWEP if day care is available and persons who are exempt from WIN because they live too far from a WIN project may be required to participate in CWEP.

States may receive 50 percent Federal matching for the costs of administering CWEP. However, these costs may not include the cost of materials or equipment, or the cost of supervision of work, and may include only such other costs as the Secretary of HHS permits.

States have been moving slowly in implementing the new program. As of February 26, 1982, only three States had implemented the new legislation (North Dakota, Oklahoma, and West Virginia).

Utah had a similar program prior to the enactment of the new provision.

An additional five States are planning to implement CWEP as part of an administration demonstration program (Michigan, New York, North Carolina, Ohio and South Dakota). Ten States have expressed interest in implementing CWEP. These are Alabama, Arkansas, California, Delaware, Idaho, Kentucky, Massachusetts, Missouri, Montana, and South Carolina. Additional States are expected to include a CWEP-type program as part of their new WIN demonstration programs, authorized in the 1981 Reconciliation Act.

Description of proposal:

The administration is again proposing that CWEP be mandatory in all States. CWEP, or other work program participation, would have to be provided to all principal earners in AFDC-unemployed parent program families. In other respects, the administration would allow States flexibility in determining the scope of their programs. The administration has stated that it believes requiring the work experience program in all States will assure that AFDC recipients are encouraged to find work in the private sector and perform useful public services when no private job is available.

Currently there is open-ended Federal matching for allowable CWEP administrative costs. If the administration's proposed block grant for welfare administrative costs were adopted, funding for CWEP administrative costs would have to come out of the State's allocation, or from State or local funds. (The administrative cost block grant would impose a ceiling on Federal spending for administration of AFDC, medicaid, and food stamps of about 95 percent of 1982 spending levels.)

Impact:

The administration and the Congressional Budget Office differ considerably in their estimates of the impact of this provision, along with that of the next three provisions as shown in table 1 below. For example, for fiscal year 1983, the administration assumes $281 million of outlay savings from the adoption of all four proposals while CBO estimates only $77 million of savings. If these proposals are evaluated independently of the welfare administration block grant, these provisions would show a net cost to the Federal and the State governments under the CBO methodology. The total administrative cost of CWEP and the job search provisions are estimated by CBO to be $166, $315, and $321 million for fiscal years 1983 to 1985 respectively. Under current law, the Federal Government would pay 50 percent of these costs and thus the net cost to the Federal Government in fiscal year 1983 is $6 million (cost of $83 million compared to outlay savings of $77 million). All of these savings estimates are highly uncertain because no good data exists for the number of AFDC families who will be deterred from seeking benefits as a result of workfare.

See appendix C for a detailed description of why administration and CBO estimates differ.

Effective date:

July 1, 1982.

TABLE 1.—COMPARISON OF SAVINGS ESTIMATES FOR PROVISIONS RELATING TO WORK REQUIREMENT

[By fiscal year, in millions of dollars]

	Administration				CBO			
	1982	1983	1984	1985	1982	1983	1984	1985
CWEP, AFDC-single parent	6	49	82	70	0	15	22	23
CWEP, AFDC-UP	23	86	79	73	0	52	107	103
Mandatory job search	35	145	149	152	0	9	19	20
Remove parent for quitting work	(1)	1	1	1	0	1	1	1
Total savings	64	281	311	296	0	77	149	147
Federal administrative cost if evaluated independently of welfare administration block grant[2]	NA	NA	NA	NA	0	83	158	161
Federal cost	NA	NA	NA	NA	....	6	9	14

[1] Negligible.

[2] In a letter to Chairman Rostenkowski, the administration discussed administrative costs as follows: "The three provisions to mandate CWEP projects, CWEP for principal earners, and job search leave a great deal of flexibility to the States with respect to the kinds of activities and their associated costs that are undertaken. This flexibility makes it impossible at this time to accurately estimate the administrative costs associated with these provisions. We believe, however, that the program savings that will be realized by these provisions, reduced administrative costs due to lower case loads and the savings to States from the increased flexibility of the Combined Welfare Administrative Block Grant will offset these administrative costs."

NA: Not available.

Provide unemployed parent benefits only if the principal earner is participating in a CWEP or other employment program.

Current law and background:

Current law gives States the option of providing AFDC benefits to families in which the parent who is the principal wage earner is unemployed. At the present time, 21 States plus the District of Columbia and Guam are operating an AFDC-unemployed parent program, providing benefits to about 215,000 families (October 1981). AFDC-UP families are eligible for benefits without regard to whether the principal wage earner is participating in a community work experience program. However, benefits for the family are terminated if the parent refuses to register for WIN, or if he refuses without good cause to accept employment or training which he is offered, or refuses to participate in a CWEP project.

Description of proposal:

Under the administration's proposed legislation, States would no longer receive Federal matching for benefits paid under the AFDC unemployed parent program unless the principal wage earner is participating in a community work experience, work supplementation, WIN, or other employment program. As rationale, the administration has stated that limiting unemployed parent benefits to those who participate in CWEP programs would help preserve work skills and assure that only those who are unable to find private employment receive public assistance.

Impact:

See discussion under the first provision.

Effective date:

July 1, 1982.

Mandate job search for applicants.

Current law and background:

The Social Security Disability Amendments of 1980 included a provision specifically authorizing Federal matching for job search activities which are part of a State's work incentive program. Both the statute and the regulations provide sanctions if a recipient who is required to register for WIN and who has been certified as ready for employment refuses without good cause to participate in job search. In the case of the principal wage earner in an unemployed parent family, the sanction is denial of benefits for the entire family. In other cases, the individual who refuses is removed from the grant and the family's benefit is reduced. The sanction period is 3 months in the case of a first refusal and 6 months in the case of any subsequent refusals.

Although States may provide job search services to AFDC applicants, they are not permitted under current law to apply sanctions in the case of an applicant who refuses to participate in job search.

Description of proposal:

The administration proposes to require all applicants who are required to register for WIN to seek employment while their applications are pending. In 1980 and 1981, WIN had in excess of 1 million new registrants, more than 80 percent of whom were mandatory registrants.

The administration's documents do not specify any particular level of job search activity which would have to be performed, nor do they indicate a specific source of funding for operating the job search program.

Impact:

The administration estimates that 150,000 families would be diverted from welfare because of this requirement. For the budgetary impact, see discussion under the first provision.

Effective date:

July 1, 1982.

Remove the parent/caretaker from the assistance unit for voluntarily quitting work, reducing earnings, refusing employment, or refusing a CWEP assignment.

Current law and background:

Current regulations provide sanctions (described briefly above) for AFDC recipients who are required to register for WIN if they voluntarily quit work, reduce earnings, refuse employment, or refuse a CWEP assignment. Sanctions may not be applied in the case of persons who are not currently required to register, including persons who are employed 30 hours or more a week, or who live in an area so remote from a WIN program that their participation is precluded.

Description of proposal:

The administration is proposing to extend the sanctions to these nonregistrants who are employed 30 hours or more a week, or who live in an area so remote from a WIN program that their participation is precluded.

Impact:

Both the administration and CBO estimate zero savings in fiscal year 1982 and $1 million in 1983 and future years.

Effective date:

July 1, 1982.

End employable parent's benefit when youngest child reaches age 16.

Current law and background:

Current law permits the needs of a parent or caretaker relative to be considered so long as the youngest child is eligible for benefits. An amendment in the 1981 Reconciliation Act provided for ending a child's eligibility at age 18, or, at State option, age 19 if the child is in school and is expected to complete his course of study before his 19th birthday.

Description of proposal:

The administration is proposing to terminate eligibility for the parent or caretaker when the youngest child reaches age 16. The child's eligibility would continue, but the parent's income, after disregards, would be counted in determining the benefit.

Impact:

The administration estimates savings of $12 million in fiscal year 1982, $47 million in 1983, and $50 million in 1987. An estimated 1,000 households would lose benefits altogether as a result of this change, 142,000 would receive reduced benefits, and 35,000 would receive increased benefits. Those families who lose benefits altogether will also lose medicaid benefits.

Effective date:

July 1, 1982.

Include all minor children in the AFDC unit, except for SSI disabled children.

Current law and background:

Currently an AFDC family is allowed to apply for AFDC benefits on behalf of all or only some of the children in the family. It may choose to exclude a child, for example, if that child has income which would reduce the amount of the family's benefit. Unearned income of such a child reduces the family's benefit dollar-for-dollar. Earned income disregards are applied in determining the family's benefit amount, but all earned income is counted in applying the gross income eligibility test (150 percent of the standard of need).

Description of proposal:

Under the administration's proposal, the needs and income of all related children (except SSI disabled children) would be considered in determining AFDC eligibility and benefit amounts. This would include social security survivor's benefits and child support payments which are legally paid on behalf of a particular child. In addition, the needs and income of parents of minor children would have to be considered. This would mean that a mother, who is a minor and living with her parents, could not be considered to be the head of a separate AFDC unit and independent of her parents' income and resources.

Impact:

The administration estimates savings of $16 million in fiscal year 1982, $63 million in 1983, and $67 million in 1987. The administration estimates that 28,000 AFDC families would lose eligibility as the result of this change, and 74,000 would receive reduced benefits. This implies an average loss of $1,140 per family in 1983 plus loss of automatic eligibility for medicaid for those families made ineligible.

Effective date:

July 1, 1982.

Include the income of all unrelated adults as part of the AFDC assistance unit for purposes of computing benefits.

Current law and background:

A provision in the Omnibus Budget Reconciliation Act of 1981 requires that the income of a stepparent be counted in determining a family's AFDC benefits. Under that legislation, specified amounts of income are disregarded in determining the amount of the stepparent's income which is considered to be available to the AFDC family: (1) the first $75 a month of earned income (a lesser amount in the case of part-time work); (2) the amount specified in the State's standard of need as the amount needed by the stepparent to support himself and his dependents living in the same household; (3) amounts paid by the stepparent to dependents living outside the household; and (4) payments of alimony or child support to individuals not in the same household.

Description of proposal:

The administration is proposing extension of this provision to all unrelated adults who are living with the AFDC family. (A similar proposal was made last year but not enacted.) Currently the income of an unrelated adult in an AFDC household may not be counted as available to the household, and the welfare agency may count only actual contributions which it knows have been made.

Impact:

The administration estimates savings of $20 million in fiscal year 1982, $69 million in 1983, and $73 million in 1987. According to the administration, this change would eliminate eligibility for 41,000 AFDC households, and result in reduced benefits for 2,000 households. This implies an average loss of benefits of $2,970 per family in 1983 plus loss of automatic eligibility for medicaid for those families made ineligible.

Effective date:

July 1, 1982.

Prorate shelter and utilities for AFDC families living in larger households.

Current law and background:

In the past, Federal regulations governing proration of need standards were based on the U.S. Supreme Court's decision in *Van Lare* v. *Hurley* (1975). In this opinion, the Court declared invalid the New York State policy which assumed the contribution of a lodger living with the AFDC assistance unit. Subsequent to that decision, the Department of Health and Human Services published regulations which stated that the money amount of any need item included in the standard could not be prorated or otherwise reduced solely because of the presence in the household of a nonlegally responsible individual, and a State could not assume any contribution from such an individual for the support of the assistance unit. This general prohibition against prorating of benefits was modified in Public Law 96-272 to allow States to prorate the shelter and utilities portion of the AFDC benefit in the case of "child only" family units; i.e., when the parent is not eligible for assistance. The State is limited in applying the pro rata reduction to only those households which have total income equaling or exceeding the State standard of need for a unit of its size, or to cases where the total income of the unit cannot be determined.

Description of proposal:

The administration is proposing to expand this provision to require States to prorate the portion of the AFDC grant for shelter and utilities whenever the assistance unit shares the household with other individuals. This provision would be applied only after the previous two provisions have been applied (which set forth requirements for counting certain household members' income as income to the AFDC family).

The assistance unit would receive the amount determined by multiplying the amount that would be paid for shelter and utilities to an assistance unit that includes the total number of household members, by the ratio of the number of individuals in the assistance unit over the total number of household members.

There would be no guidelines in the statute regarding how States should determine what part of their need standards are for shelter and utilities. Under current regulations on counting the value of housing subsidies, States with a flat-grant system must estimate the amounts based on historical data or other justifiable procedure.

For example, in a State that pays $150 for shelter and utilities to a 3-person assistance unit and $220 for shelter and utilities to a 5-person assistance unit, where a 3-person assistance unit lives with 2 other individuals the State would multiply $220 (the shelter and utility allowance for 5 persons) by 3/5, the ratio of persons in the assistance unit to persons in the household. The State would pay the assistance unit $132 for shelter and utilities.

Impact:

The administration is estimating savings of $45 million in fiscal year 1982, $174 million in 1983, and $186 million in 1987. According to the administration, 14,000 AFDC families would lose eligibility for AFDC and medicaid as a result of this change, and 459,000 would have their benefits reduced. Nationally, approximately 16 percent of AFDC families have grandparents living with them. In the Southern States it is 30 percent. This implies an average loss of benefits of $680 per year per family in 1983.

Effective date:

July 1, 1982.

Require States to count Federal energy assistance payments as income for AFDC.

Current law and background:

The Low-Income Energy Assistance Act authorizes grants to States to assist eligible households in meeting the costs of home energy. The 1982 continuing resolution provided $1.753 billion for the program this year. In addition, the Supplemental Appropriation, H.J. Res. 391, which passed the Congress on February 10, 1982, contained an additional $123 million. States may use these funds to make payments to individuals in AFDC or other low income households. The law provides that these payments may not be counted as income or resources for purposes of the AFDC program.

Payment standards which the States develop for purposes of the AFDC program are intended to cover basic items such as housing, utilities, food, clothing, and other essential needs. However, many States do not update their standards to take account of changes in the cost of particular items. Some States simply have a single dollar amount to cover all needs, which they may or may not update on a systematic basis.

Description of proposal:

The administration proposes to require States to count as income for AFDC any payments which are made under the low-income home energy assistance program to the extent they duplicate the amounts for heating and/or cooling in the State payment standard. Any excess would not be counted, but would be considered a grant to cover an unmet need.

Impact:

The administration estimates savings in fiscal year 1983 and future years of $175 million. The Congressional Budget Office has estimated savings of $30 million in fiscal year 1983. See appendix C for an explanation of why these estimates differ. The administration has made no estimate of the number of households that would be affected. The administration has proposed that funding for the low-income energy assistance program be reduced to $1.3 billion for fiscal year 1983. The administration's estimate assumes that $324 million of low-income energy money is given to AFDC households and duplicates the amount for heating in the State payment standard.

Effective date:

October 1, 1982.

Eliminate absence of a parent due to military service as a basis for AFDC eligibility.

Current law and background:

Under present law, AFDC may be paid to needy families if a parent is absent from the home. This may include absence because of military duty. The administration estimates that about 10,000 families who are now receiving AFDC report that their need is caused by absence due to military service. Any income which these families may actually receive from the absent parent is counted in determining the family's benefit.

Description of proposal:

The administration is proposing to exclude absence based solely on military duty as a basis for need. However, if the parent has left the home for other reasons and is actually not supporting the family, the family may still be eligible for assistance. In this case, as provided in present law, the custodial parent would have to assign to the State any rights to child support which have accrued.

Impact:

The administration is estimating savings of $4 million in fiscal year 1982, $16 million in 1983, and $18 million in 1987. The administration estimates that 10,000 AFDC households would lose eligibility as a result of this change. This implies an average loss of $2,960 per family in 1983 plus the loss of medicaid benefits.

Effective date:

July 1, 1982.

Require States to round benefits to the lower whole dollar.

Current law and background:

There is no provision in current law relating to rounding of benefits.

Description of proposal:

The administration's amendment would require the States to round both their need standards and actual monthly benefit amounts to the lower whole dollar. (A similar proposal is also being made for the SSI program.)

Impact:

The administration estimates savings of $2 million in fiscal year 1982 and $10 million in 1983 and succeeding years, through 1987. According to the administration, a large but unknown number of recipients would lose a small amount of benefits as a result of this change. On the average, the reduction would be $0.50 a month.

Effective date:

July 1, 1982.

Prorate first month's benefit based on date of application.

Current law and background:

Current regulations allow States to pay benefits beginning with the first day of the month in which an application is filed. At the present time, 12 States have chosen to do this. States which do not begin payments with the first of the month must begin assistance no later than the date of authorization, or 30 days from the date the application is complete, whichever is earlier.

Description of proposal:

The administration's amendment would prohibit States from paying benefits for the period prior to the date the application is filed. Payment for the first month's benefit would be prorated based on the date of application. A similar proposal is being made for the SSI program. An amendment to the Food Stamp Act requiring that the first month's food stamp benefit be prorated from the date of application was enacted in the 1981 Reconciliation Act.

Impact:

The administration is estimating savings of $3 million in fiscal year 1982, and $14 million in 1983 and succeeding years through 1987. According to the administration, an estimated 16,000 families per month would have their first month's benefit prorated based upon actual date of application. This implies an average loss of $135 per family per month or approximately an average loss of one-half of one month's benefits.

Effective date:

July 1, 1982.

Repeal the AFDC optional emergency assistance program.

Current law and background:

The emergency assistance program, authorized by title IV of the Social Security Act, provides 50 percent Federal matching for emergency assistance (in the form of cash, medical care, or services) to needy families with children under a State's AFDC plan.

Assistance may be provided for no more than 30 days in any 12-month period, and is limited to cases in which the child is without available resources, and the payments, care, or services involved are necessary to avoid destitution of the child or to provide living arrangements for the child. This program was enacted in 1967, and was made optional with the States. In December 1980, the following 27 jurisdictions had established an emergency assistance program: Arkansas, Connecticut, Delaware, District of Columbia, Illinois, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Virgin Islands, Virginia, Washington, West Virginia, Wisconsin, and Wyoming. Assistance was provided to 52,000 families in that month. The Federal expenditure for emergency assistance was $65 million in fiscal year 1981.

Description of proposal:

Under the administration's proposal, beginning in 1983, Federal matching would be ended for the emergency assistance program. Legislation will be introduced to consolidate emergency assistance and energy assistance in a low-income home energy assistance block grant. The administration proposed a similar consolidation in its 1982 budget recommendations.

Impact:

The administration is estimating savings of $60 million in fiscal year 1983.

Effective date:

October 1, 1982.

Reduce Federal matching for AFDC payment errors.

Current law and background:

In the four major welfare programs, AFDC, SSI, medicaid, and the food stamp program, the Federal Government and the States have established on-going "quality control" systems. These systems attempt to: (1) measure the extent and dollar value of "errors" in administration; (2) identify the types and causes of error; and (3) specify and monitor corrective actions taken to eliminate or reduce errors.

In the AFDC, medicaid, and food stamp systems, States may be "sanctioned" by being required to pay the Federal Government the Federal cost of improperly issued benefits, as shown by quality control surveys, if they do not keep their error rates below a national average or show a reduction in their error rates that meets a regularly adjusted "target improvement rate." However, waivers of these sanctions are allowed and have, thus far, been regularly granted. The fiscal sanction that may be imposed is the amount of Federal funds misspent above what the State's error rate would have been if it had met its target improvement rate. In the SSI system, the Federal Government is to reimburse States for their share of federally administered SSI funds misspent above a 4 percent "tolerance level."

The regulations prescribing the AFDC sanction rules were issued pursuant to a provision in the fiscal year 1980 appropriation bill (sec. 201 of H.R. 4389) directing the Secretary to issue regulations requiring States to reduce their AFDC payment error rate to 4 percent by September 30, 1982. Although the bill was not enacted, the Congress adopted a continuing resolution (Public Law 96-123) to appropriate 1980 funds "to the extent" and "in the manner" of H.R. 4389, as adopted by the House on August 2, 1979. This legislation was interpreted by the Department as requiring the implementation of section 201.

Under these regulations, States are required to achieve one-third progress toward the 4-percent payment error rate (measured from their error rate for the base period April-September 1978) by September 30, 1980, and two-thirds progress by September 30, 1981. The 4-percent goal is the standard for all assessment periods after September 30, 1982.

The national average payment error rate for recent measurement periods has been: April-September 1979, 9.5 percent; October 1979-March 1980, 8.3 percent; and April-September 1980, 7.3 percent. For that most recent period, only four States had achieved the 4-percent goal: Minnesota, Iowa, Nevada, and Oregon.

Description of proposal:

Under the administration's proposal, Federal matching would be discontinued for erroneous benefit payments in excess of 3 percent in 1983, 2 percent in 1984, and 1 percent in 1985. Beginning in 1986, no Federal matching would be permitted for any erroneous payments in AFDC, medicaid, and food stamps. Grant amounts to States would reflect projections of State costs and error rates. In other words, they would be reduced on a prospective basis.

Impact:

Both CBO and the administration are estimating Federal savings and additional State costs of $234 million in fiscal year 1983, $105 million in 1984, and $167 million in 1985. This estimate assumes that States will be able to decrease their payment error rate to 4 percent in fiscal year 1984 and it assumes no further reduction in the error rate in following years. It also assumes that any additional administrative cost needed to reduce the error rate will be borne by State or local governments.

In addition to these error sanctions, the administration assumes that there will be AFDC error sanctions under current law equal to $93, $173, and $152 million for fiscal years 1983 to 1985 respectively.

Effective date:

Federal matching would be discontinued for erroneous benefit payments in excess of 3 percent in fiscal year 1983; 2 percent in fiscal year 1984; 1 percent in fiscal year 1985, and 0 percent in fiscal year 1986 and beyond.

Implement a new State administration block grant.

Current law and background:

Under current law, the Federal Government matches State administrative expenses at a 50-percent rate for the AFDC, medicaid, and food stamp programs on an open-ended basis. In addition, higher matching is available for certain other activities, including food stamp fraud control, and acquiring and improving management information systems for AFDC and medicaid.

Total Federal, State, and local expenditures for AFDC administration increased from $1.0 billion in 1975 to $1.4 billion in 1980. It is estimated that they will increase to $1.8 billion in 1983 (under present law). The average administrative cost per AFDC family was $433 in 1981 (based on preliminary data, using the average monthly number of families). The cost per family varied widely from State to State, from a low of $115 in Mississippi to a high of $740 in New York as shown in table 2 below.

TABLE 2.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1981 (PRELIMINARY DATA)

State	Average monthly number of AFDC families (thousands)	Total benefit payments [1] (million)	Total administrative costs (millions)	Administrative cost per AFDC family
Alabama	61.2	$77,478	$14,938	$244
Alaska	6.2	34,328	3,828	617
Arizona	22.4	42,974	9,410	420
Arkansas	29.6	51,061	6,410	216
California	520.1	2,543,678	288,104	553
Colorado	29.3	88,567	10,654	363
Connecticut	50.0	205,222	13,460	269
Delaware	12.0	32,070	2,938	244
District of Columbia	28.8	88,726	12,020	417
Florida	102.9	208,054	35,200	342
Georgia	91.0	181,838	28,058	308
Hawaii	20.1	93,240	5,962	296
Idaho	7.3	22,043	4,516	618
Illinois	231.1	790,084	87,032	376
Indiana	61.1	145,368	21,100	345
Iowa	40.5	160,407	12,900	318
Kansas	28.6	88,287	9,186	321
Kentucky	67.6	146,427	19,298	285
Louisiana	71.3	130,462	25,236	353
Maine	21.1	58,161	4,422	209
Maryland	31.5	226,486	15,574	494
Massachusetts	124.1	533,084	50,506	406

TABLE 2.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1981 (PRELIMINARY DATA)—Continued

State	Average monthly number of AFDC families (thousands)	Total benefit payments [1] (million)	Total administrative costs (millions)	Administrative cost per AFDC family
Michigan	246.9	1,147,246	124,304	503
Minnesota	54.6	242,432	22,424	410
Mississippi	60.3	62,117	6,968	115
Missouri	73.5	183,350	26,968	366
Montana	7.3	19,014	2,870	393
Nebraska	14.0	46,878	6,520	465
Nevada	5.2	12,390	3,344	643
New Hampshire	8.7	28,151	2,726	313
New Jersey	153.8	563,624	59,320	385
New Mexico	19.5	45,816	7,714	395
New York	369.4	1,508,984	273,496	740
North Carolina	80.2	157,553	18,848	235
North Dakota	4.9	15,773	2,040	416
Ohio	205.2	617,250	61,058	297
Oklahoma	31.1	89,928	17,296	556
Oregon	34.9	110,950	19,566	560
Pennsylvania	221.0	764,465	105,766	478
Rhode Island	19.1	75,257	6,244	325
South Carolina	58.1	79,050	12,016	206
South Dakota	6.9	17,252	2,582	374
Tennessee	66.1	85,093	16,816	254
Texas	108.4	127,704	41,326	381
Utah	13.7	50,419	5,918	431
Vermont	8.3	38,889	2,888	347
Virginia	64.9	172,639	26,082	401
Washington	57.1	237,614	28,524	499
West Virginia	28.6	61,152	5,568	194
Wisconsin	87.8	381,869	35,844	408
Wyoming	2.7	8,470	1,402	519
Guam	1.5	3,108	452	301
Puerto Rico	47.7	61,995	11,778	248
Virgin Islands	1.2	2,700	328	273
U.S. total	3,871.0	12,967,207	1,639,728	424

[1] Excludes foster care payments.

Source: Data provided by the Department of Health and Human Services; table compiled by the Congressional Research Service.

Description of proposal:

Beginning in 1983, HHS proposes to implement a new State administration block grant to meet the costs incurred by State and local welfare agencies in administering the AFDC, medicaid and food stamp programs. The block grant would be capped at $2,181 million for 1983 and future years. According to HHS, this represents approximately 95 percent of the 1982 Federal funding level for administrative costs of these programs. HHS estimates that under current law the Federal costs of administration of these programs would grow to $2,488 million in 1983 and to $3,020 million in 1987. The Federal administrative costs (identical amount for state and local) for AFDC are expected to be $884, $934 and $981 million for fiscal years 1983 to 1985. No State matching payment would be required. HHS says that in certain areas where the Federal Government supports anti-fraud and anti-abuse activities at a higher matching level, such as food stamp fraud control, the current open-ended Federal match will continue. HHS also says that many Federal administrative requirements (as yet unspecified) will be reduced or eliminated to give States added flexibility. The State allocation formula has not yet been determined.

Impact:

HHS is estimating savings to the AFDC program as a result of this change of $40 million in fiscal year 1983, $89 million in 1984, and increasing to $223 million in 1987. Basically, the States must absorb the impact of inflation for administering these programs. CBO, because of different baseline assumptions, estimates Federal savings of $106, $181 and $261 million for fiscal years 1983 to 1985, respectively.

Effective date:

October 1, 1982.

CHILD SUPPORT ENFORCEMENT

The administration is proposing changes in the child support enforcement program which would result in savings of $35 million in 1982 and $157 million in 1983.

These changes are as follows:

Require States to collect a 6-percent fee for non-AFDC child support collections.

Current law and background:

The child support statute requires States to provide child support services to both AFDC and non-AFDC families. The cost of providing services is matched by the Federal Government at a 75-percent rate.

Prior law allowed States to recover costs of serving non-AFDC families by charging an application fee of up to $20, and by retaining a portion of any child support payments it collected. Last year the administration proposed replacing this optional provision with a requirement that States retain a fee equal to 10 percent of the support collected. In the Reconciliation Act, the Congress amended this provision to require that the fee be charged against the absent parent, rather than the custodial parent, and that the fee be added to the amount of the collection. States have reported that because of legislative barriers and administrative difficulties, they have generally been unable to implement the requirement that the collection be charged only against the absent parent.

The Ways and Means Committee included an amendment in H.R. 4961 (which passed the House December 15, 1981) repealing the Reconciliation Act provision and restoring the optional fee provision of prior law which allows States to recover costs by retaining a portion of any collections they make. It also gives States an additional option by allowing them to recover costs from the absent parent if they are able to do so.

Description of proposal:

The administration is again proposing legislation to impose a mandatory fee. It proposes requiring States to retain 6 percent of collections made on behalf of non-AFDC families. (it is not clear whether any option will be provided for collection from the absent parent rather than the custodial parent.)

Impact:

The administration estimates savings of $10 million in fiscal year 1982, $45 million in 1983, and $76 million in 1987.

Effective date:

July 1, 1982.

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Restructure Federal matching provisions.

Current law and background:

The Federal Government is required to pay 75 percent of all State and local administrative costs for child support services. Any child support that is collected on behalf of an AFDC family is used to offset AFDC benefit costs. The amounts recovered reimburse the Federal and State governments according to their respective AFDC matching shares. In addition, States and localities receive a 15-percent incentive payment (financed out of the Federal share of collections) for collections made on behalf of an AFDC family.

Description of proposal:

The administration wants to repeal the current structure of Federal matching payments and distribution of AFDC collections, and replace it with a new formula which it says would be designed to reward States both for increasing collections and for operating cost-effective programs. The administration maintains that since the Federal share of total collections is less than 50 percent, but the Federal share of administrative costs is over 75 percent, the child support program is a net gain for States, and a net cost to the Federal Government, even though AFDC collections are increasing. Details of how this new mechanism would work are not yet available.

In 1981, collections on behalf of AFDC families amounted to $688 million. Administrative costs (for both AFDC and non-AFDC families) were $542 million (Federal and State). Net collections (collections minus costs) for the Federal and State governments combined amounted to $146 million. Net collections for the Federal Government alone were −$153 million.

Impact:

The administration estimates savings at $25 million in fiscal year 1982, and $100 million in 1983 and the following years through 1987. Federal savings under this provision result primarily from reduced State savings.

Effective date:

July 1, 1982.

Other child support proposals.

Description of proposal:

The administration says that it will be proposing additional changes in the child support program, including increasing the availability of information for State child support agencies, and making allotments against pay for military personnel who have delinquent child support obligations.

Impact:

The administration estimates savings of $12 million in fiscal year 1983 and $17 million in 1987.

Effective date:

July 1, 1982.

SUPPLEMENTAL SECURITY INCOME

The administration's 1983 budget includes legislative changes in the SSI program which would result in estimated savings of $101 million in 1982 and $286 million in 1983.

Prorate first month's benefit based upon date of application.

Current law and background:

Under current law, the payment of SSI benefits must begin with the first day of the month in which the recipient (1) applies, and (2) meets the eligibility requirements.

Description of proposal:

The administration is recommending that the first month's benefits be prorated from the date of application or the date of eligibility, whichever is later. A similar proposal is being made for the AFDC program. A provision requiring that the first month's food stamp benefits be prorated from the date of application was enacted in the 1981 Reconciliation Act.

Impact:

The administration estimates savings of $10 million in fiscal year 1982, and $40 million in 1983 and the following years through 1987. According to the administration, this change would affect 550,000 recipients in 1983 and 1984. The average loss per SSI recipient is $73 in 1983.

Effective date:

July 1, 1982.

Round SSI payment standard and benefit amount to next lower dollar.

Current law and background:

Currently, both the SSI payment standard and actual monthly benefit payments are rounded to the next higher 10 cents in the computation process.

Description of proposal:

The administration proposes rounding these amounts to the next lower dollar. (The change in rounding of monthly benefit amounts would be done administratively, using existing authority.) The change would be effective July 1, 1982, and would be reflected in the cost-of-living adjustment to take effect in July 1982. A similar proposal has been made for the AFDC program.

Impact:

The administration is estimating savings of $3 million in fiscal year 1982, increasing to $20 million in 1983 and $135 million in 1987.

Effective date:

July 1, 1982.

Eliminate $20 disregard for new recipients.

Current law and background:

When the SSI program was enacted, a provision was included to require the "disregard" of $20 of income a month in determining SSI eligibility and benefit amounts. This provision was included to assure that persons who had qualified for social security benefits, a private or public pension, or who had accumulated some savings, would have tangible recognition of their efforts to provide for themselves in retirement. This disregard is applied first to any unearned income, but may be applied to earned income if the recipient has less than $20 in unearned income. It may not be applied to income which is based on need, such as veterans' pension income.

Data for December 1980 show that in that month 70 percent of aged and 36 percent of disabled SSI recipients had income from social security. About 13 percent of the aged and 10 percent of the disabled had other unearned income. The largest sources of unearned income (other than veterans' benefits) were in-kind income in the form of support and maintenance, asset income, and employment-related pensions.

Description of proposal:

The administration is proposing to eliminate the $20 disregard for all new applicants and reapplicants, beginning January 1, 1983. Individuals who are currently receiving the $20 disregard would continue to do so, so long as they receive SSI benefits on a continuous basis.

Impact:

The administration estimates savings of $15 million in fiscal year 1983, $75 million in 1984, and increasing to $200 million in 1987. According to the administration, 300,000 individuals would be affected by this change in 1983, and 675,000 in 1984. Typically, this would reduce SSI benefits by $240 per year per recipient for those recipients with other income.

Effective date:

January 1, 1983.

Cross program recovery of SSI overpayments.

Current law and background:

Present law authorizes the Secretary to recover SSI overpayments by adjusting future payments, or by recovery from the recipient. Recovery of overpayments is to be made with a view to avoiding penalizing the individual who is without fault. Recovery of overpayments is not required if the individual is without fault and if recovery would defeat the purpose of the program, or be against equity or good conscience, or the amount to be recovered is so small as to impede efficient or effective administration. During fiscal year 1981, the Social Security Administration collected about $119 million in Federal overpayments, and $47 million in overpayments made on behalf of the States. The administration says that it has been unable to recover more than 40 percent of SSI overpayments using present collection procedures.

Quality control data for the period (October 1980 through March 1981) show that 5.3 percent of SSI payments were made in error. Approximately 40 percent of the payment error rate was due to errors made by the Social Security Administration.

Description of proposal:

The administration is seeking authority to recover SSI overpayments from benefits payable under other programs administered by the Social Security Administration (i.e., Black Lung and OASDI benefits) through automatic reduction in those benefits.

Impact:

The administration estimates savings of $16 million in fiscal year 1983, and $20 million in 1987.

Effective date:

October 1, 1982.

Coordination of SSI with OASDI cost-of-living adjustment under retrospective accounting.

Current law and background:

Under prior law, SSI eligibility and benefits were generally determined for a calendar quarter, based on the income and resources anticipated by the individual during that quarter. Cost-of-living adjustments which are made annually in July for both social security and SSI beneficiaries were coordinated so that an increase in social security which was received in July was taken into account in determining the July SSI payment.

The 1981 Reconciliation Act included a provision requiring that this quarterly prospective system of accounting be replaced by a monthly retrospective system. Beginning April 1982, the amount of a recipient's SSI benefit will be determined on the basis of his income, resources, and other characteristics in the preceding month, or, at the discretion of the Secretary, the second preceding month. (For applicants, the amount will be determined on the basis of the current month's anticipated circumstances.)

The 1981 legislation did not include a provision to coordinate the SSI and social security annual benefit increases. Thus, when SSI recipients receive their increased SSI benefit in July, that benefit will not take into account the new, higher social security benefit which the recipient will receive that month, but will reflect the benefit which was received in May. The new social security benefit amount will not be taken into account, and thereby will not be used to reduce the SSI payment, until September. Last fall, the administration recommended legislation to coordinate the SSI and social security benefit increases. Subsequently, the Committee on Ways and Means included as section 205 of H.R. 4961 a provision to change, effective April 1, 1982, the SSI accounting period to the current month. The House passed H.R. 4961 on December 15, 1981. Thus, a social security benefit increase expected to be received in July would be taken into account in determining that month's SSI benefit. The Congressional Budget Office estimated that section 205 of H.R. 4961 would save $69 million in fiscal year 1982 and $23 million in fiscal year 1983.

Description of proposal:

The administration would like to retain the monthly retrospective accounting system, but would like a correction in last year's legislation to allow the cost-of-living adjustment which is made in social security benefits in July to be reflected immediately in the computation of the SSI benefit.

Impact:

The administration estimates savings of $50 million in fiscal year 1982, $45 million in 1983, and $40 million in 1987. According to the administration, 1,665,000 individuals would be affected by this change in 1983, and 1,620,000 in 1984. This change would affect 45 percent of the total Federal SSI caseload. In 1982, this implies an average change in benefits of $30 per year for those SSI recipients with social security income.

Effective date:

July 1, 1982.

Determine disability on prognosis of at least 24 months duration.

Current law and background:

Under present law, in order to be found disabled under both the title II (disability insurance) and title XVI (SSI) programs, an individual must be unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to result in death or which is expected to last for a continuous period of not less than 12 months. The 12-month requirement was enacted for title II disability in 1965, after experience under the disability program had demonstrated that, in the great majority of cases in which disability continues for at least a year, the disability is essentially permanent.

Description of proposal:

The administration is recommending that the SSI law (not title II) be amended to require a minimum prognosis of not less than 24 months. As rationale, the administration says that restricting permanent disability to nonemployable individuals with a prognosis of at least 24 months of disability would assure that temporary disabling impairments would not be a basis to qualify for benefits, and that the 24-month duration requirement is more consistent with the concept of permanent disability.

This same proposal was recommended last year by the administration for the title II disability program. A bill was never formally transmitted, however, and the administration has said that no new title II proposals will be made until after the report of the National Commission on Social Security Reform in January 1983. A discussion of this proposal was included in a print by the Subcommittee on Social Security, dated October 20, 1981, "Reagan Administration Disability Proposals."

Impact:

The administration estimates savings of $5 million in fiscal year 1982, $45 million in 1983, and $200 million in 1987. According to the administration, 35,000 individuals would be affected by this change in 1983, and 60,000 in 1984. The loss in the first 12 months an individual is affected would equal approximately the average SSI payment for a disabled individual in 1983, $215 per month or $2,580 per year. These individuals will also lose medicaid eligibility.

Effective date:

July 1, 1982.

Require that a finding of disability be based on a preponderance of medical factors.

Current law and background:

The law for both the title II and title XVI disability programs provides that an individual may not be determined to be disabled unless his physical or mental impairment or impairments are of such severity that he is not only unable to do his previous work but cannot, considering his age, education, and work experience, engage in any other kind of substantial gainful work which exists in the national economy, regardless of whether such work exists in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work.

On the basis of this statutory language, the Social Security Administration has prescribed regulations setting forth in detail the medical and vocational factors which must be considered in making a disability determination under both the disability insurance and SSI disability programs. The determination process is sequential. Vocational factors are considered only if the individual is not found to have an impairment which meets or equals the medical listings.

Description of proposal:

The 1983 budget includes a recommendation to amend the SSI law to ensure that a finding of disability be based on a preponderance of medical rather than vocational factors. As the proposal has been described, only younger workers would be affected by this change. Determinations for persons of advanced age (not yet determined) would still be based on both medical and vocational factors.

This proposal, like the one described above, was put forth by the administration last year for disability insurance, but has not been included in the 1983 budget. Any decision on this change with respect to DI will be made only after the National Commission on

Social Security Reform makes its report next January. The Social Security Subcommittee print referred to above also includes a discussion of this proposal as it relates to title II.

Use of vocational factors in determining disability has varied over the years, raising the question of whether the adjudication process has been operating in a consistent manner. Vocational factors accounted for 16 percent of title II disability decisions in 1965, grew gradually to account for 27 percent in 1976, and accounted for 24 percent in 1980. This change took place without any change in the statute, and presumably resulted from administrative changes initiated by the Social Security Administration. (Comparable data over time are not available for SSI. Data for 1976 show that 25 percent of SSI awards involved use of vocational factors.)

Impact:

The administration estimates savings of $10 million in fiscal year 1982, $75 million in 1983, and $420 million in 1987. According to the administration, 80,000 individuals would be affected by the change in 1983, and 135,000 in 1984. For each of the individuals who no longer could receive SSI, the average loss is $215 per month or $2,580 on a full year basis. This is equivalent to the projected average SSI benefit for disabled individuals. These individuals also lose medicaid eligibility.

Effective date:

July 1, 1982.

Phase out "hold harmless" protection.

Current law and background:

The SSI program provided for a basic Federal minimum payment for all eligible recipients. States were required by law to maintain income levels of former public assistance recipients who were transferred to the SSI program in January 1974 by making mandatory supplementary payments. In addition, States were allowed to augment the Federal benefit for these and other recipients through optional supplementary payments. The original statute also included "hold harmless" protection for the States which allowed them to supplement the Federal payment to assure that recipients would receive cash benefits equal to their January 1972 benefit levels, with no cost to the State beyond what it spent for benefits on behalf of aged, blind, and disabled persons in calendar year 1972. Because of Federal benefit increases since that time, all except two States (Hawaii and Wisconsin) have lost their "hold harmless" status. These two States still receive a Federal contribution to their State supplements because of a special provision which was added to the law in 1976. Under this provision, their "hold harmless" payments are no longer reduced by Federal benefit increases.

Description of proposal:

The administration is proposing a 4-year phaseout of the hold-harmless provision beginning in fiscal year 1982. The proposal reduces the "hold harmless" payment in 1983 to 40 percent of what would otherwise be paid, 20 percent in 1984, with no "hold harmless" payments being made in 1985 and in future years.

Impact:

The administration's "hold harmless" provision is estimated to save $30 million in 1983 and $45 million in 1987.

This would result in a $29 million and $1 million loss of Federal dollars to the States of Wisconsin and Hawaii respectively in fiscal year 1983. Whether SSI recipients are affected will depend upon how these two States absorb the loss of Federal SSI dollars.

Effective date:

October 1, 1982.

Repeal of requirement that States pass through SSI cost-of-living increases.

Current law and background:

Effective July 1977, States which supplement Federal SSI benefits are now required to pass through the Federal SSI cost-of-living increases.

A State can meet this requirement by maintaining the level of state supplementation payment at an amount not less than that in effect in December, 1976 or, the first subsequent month in which supplemental payments were made. The States can also meet this requirement by providing that the total aggregate amount of State supplementation paid by a State in the 12-month period following the cost-of-living increase not be less than the aggregate amount of State supplementation payments by the State in the previous 12 months.

Description of proposal:

The administration is proposing to eliminate the mandatory passthrough of SSI benefit increases. The SSI cost-of-living increase on July 1, 1982, is estimated to cost $750 million. Nearly 1.9 million SSI recipients receive some form of State supplementation.

Impact:

There would be no impact on the Federal budget from the repeal of the passthrough requirement. A State would have the option of saving an amount equal to the value of the Federal SSI cost-of-living increases for SSI recipients in the State with an equal loss of benefits to the recipients.

Effective date:

October 1, 1982.

LOW INCOME ENERGY ASSISTANCE BLOCK GRANT

Current law and background:

As part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35), the Low-Income Home Energy Assistance Act of 1981 authorized the Secretary of Health and Human Services to make grants to States to assist eligible households to meet the costs of home energy. For each of the fiscal years 1982, 1983, and 1984, $1.875 billion was authorized. There is no State matching requirement. State allocations are determined on the basis of the percentage of funds each State received for fiscal year 1981 under the Home Energy Assistance Act of 1980.

Under current law, States have considerable discretion to determine eligibility criteria and the types of assistance to be provided to low-income households. Federal funds may be used to make payments to households in which one or more individuals are receiving AFDC, food stamps, SSI or certain veterans benefits or to households with incomes which do not exceed the greater of 150 percent of the poverty level, or 60 percent of a State's median income.

The allocations to the States are shown in table 3 below. In fiscal year 1981, the program provided an average benefit of $248 per household to approximately 7 million households.

TABLE 3—FISCAL YEAR 1982 ALLOCATION TO STATES FOR LOW INCOME HOME ENERGY ASSISTANCE

[In thousands]

State	Fiscal year 1982 allocation	State	Fiscal year 1982 allocation
Alabama	$15,021	Illinois	101,448
Alaska	9,588	Indiana	45,933
Arizona	7,264		
Arkansas	11,461	Iowa	32,553
California	80,582	Kansas	14,950
		Kentucky	23,903
Colorado	28,096	Louisiana	15,356
Connecticut	36,653	Maine	23,745
Delaware	4,865		
District of Columbia	5,692	Maryland	26,064
Florida	23,767	Massachusetts	73,317
		Michigan	96,316
Georgia	18,792	Minnesota	69,390
Hawaii	1,892	Mississippi	12,878
Idaho	10,959		
		Missouri	40,522

TABLE 3—FISCAL YEAR 1982 ALLOCATION TO STATES FOR LOW INCOME HOME ENERGY ASSISTANCE—Continued

[In thousands]

State	Fiscal year 1982 allocation	State	Fiscal year 1982 allocation
Montana	12,855	Rhode Island	12,068
Nebraska	16,099	South Carolina	11,929
Nevada	3,412	South Dakota	11,341
New Hampshire	13,877	Tennessee	24,214
New Jersey	68,064	Texas	39,541
New Mexico	9,094	Utah	13,056
New York	222,238	Vermont	10,402
North Carolina	33,120	Virginia	34,186
North Dakota	13,964	Washington	35,818
Ohio	89,746	West Virginia	15,819
Oklahoma	13,807	Wisconsin	62,461
Oregon	21,776	Wyoming	5,228
Pennsylvania	119,375	Total	1,746,500

Note.—The total is less than the total amount appropriated because funds to the territories plus Federal administrative costs are not shown. Also, this table does not include the additional amounts appropriated on February 10, 1982, in H.J. Res. 391.

Description of proposal:

The administration proposes to cap low-income energy assistance grants to the States at $1.3 billion for fiscal years 1983, 1984, and 1985. In addition, the administration proposes to broaden the purposes for which block grant funds may be used to include activities previously funded under the AFDC emergency assistance program. No details are available regarding the administration's allocation formula for the block grant, although the budget documents state that the formula will target funds to States most in need of heating assistance.

Impact:

The funding for this program will be reduced by $575 million for fiscal years 1983 to 1984. The impact upon individual States cannot be determined as the precise allocation formula is not available. The impact upon individuals must also take into account the proposed change to the AFDC program which would count part or all of energy assistance payments as income and the proposal to fund the AFDC emergency assistance program from this grant.

Effective date:

October 1, 1982.

TITLE XX SOCIAL SERVICES

Current law and background:

Prior to fiscal year 1973, Federal matching for social services provided under the Social Security Act welfare programs was mandatory and open ended. Every dollar a State spent for social services was matched by three Federal dollars. In 1972, a cap was established which limited Federal funding for social services programs to $2.5 billion for fiscal year 1973 and subsequent years.

In 1974 the Congress enacted legislation transferring the provisions governing social services programs from the cash public assistance titles of the Social Security Act to a new separate services title (title XX). The $2.5 billion cap on funding was retained. Temporary legislation was enacted providing an additional $200 million for day care in 1977, 1978, and 1979, and the ceiling was raised to $2.9 billion (including $200 million for day care) for 1979.

Legislation in 1980 provided the following funding levels for title XX: $2.7 billion in 1980, $2.9 billion in 1981, $3.0 billion in 1982, $3.1 billion in 1983, $3.2 billion in 1984, and $3.3 billion in 1985 and years thereafter.

The Omnibus Budget Reconciliation Act of 1981 created a new social services block grant program to replace the prior Federal-State matching program. The program remains an appropriated entitlement. However, funding levels are reduced. Under the new legislation each State is eligible to receive its share (based on population) of a national total of $2.4 billion in 1982, $2.45 billion in 1983, $2.5 billion in 1984, $2.6 billion in 1985, and $2.7 billion in 1986 and years thereafter.

Description of proposal:

The administration is proposing to reduce title XX funding to $1.97 billion in fiscal year 1983 and allow States to use title XX for activities now funded through the WIN program. The administration is not requesting funds for the WIN program in fiscal year 1983.

Impact:

Savings over current law would be $476 million, $526 million, and $626 million for fiscal years 1983 to 1985. Compared to the funding level prior to Public Law 97-35, these proposed reductions plus the reductions enacted in Public Law 97-35 represent approximately a 40-percent reduction in funding for fiscal years 1983 and 1984.

Effective date:

October 1, 1982.

CHILD WELFARE, FOSTER CARE AND ADOPTION ASSISTANCE

Current law and background:

Title IV-B of the Social Security Act authorizes grants to the States for the purpose of providing child welfare services. Legislation in 1980, the Adoption Assistance and Child Welfare Act (Public Law 96-272), restructured the child welfare services program to place greater emphasis on services designed to prevent or remedy the need for long-term foster care. The child welfare services program received $164 million in appropriations in fiscal year 1981, with an additional $5 million provided for child welfare training. The 1982 continuing resolution provided a spending level of $156 million for child welfare services, and $4 million for child welfare training.

The Adoption Assistance and Child Welfare Services Act also created a new title IV-E of the Social Security Act, which restructured programs for the care of children who must be removed from their own homes. The new law is aimed at encouraging efforts to find permanent homes for children either by making it possible for them to return to their own families, or by placing them in adoptive homes. It provides Federal matching at the medicaid matching rate for adoption subsidies made by States to adoptive parents of children who are hard to place because of special needs. States may also receive Federal matching at the medicaid rate for foster care payments made on behalf of AFDC-eligible children. Public Law 96-272 placed a mandatory ceiling on Federal foster care matching funds for 4 years beginning with fiscal year 1981. The ceiling is contingent upon the appropriation of specified additional amounts for the child welfare services program. It was in effect in 1981, but is not in effect in 1982.

The estimated level of spending in 1981 for foster care is $349 million, with an additional $5 million spent for adoption assistance.

Last year the administration proposed combining the child welfare services, foster care and adoption assistance programs with title XX and a number of other social services programs, forming a new social services block grant. The Congress enacted a new social services block grant program, but limited it only to the title XX social services program. The administration also proposed limiting the entitlement feature of the adoption assistance and foster care programs as part of the 1982 appropriation. The conference report on the continuing resolution for fiscal year 1982 appropriations specifically omitted this limiting language.

Description of proposal:

The administration is recommending a new block grant proposal as part of the 1983 budget which would combine the child welfare services, child welfare training, foster care and adoption assistance programs. The funding level for fiscal year 1983 and years thereafter would be set at $380 million.

The administration says that the new child welfare block grant will be patterned after the block grant models enacted in 1981.

Impact:

As noted above, the administration is recommending a funding level of $380 million for 1983 and years thereafter, which is a reduction of $132 million from the CBO baseline projection. Since the block grant is not adjusted for inflation, the savings under CBO assumptions increase in future years.

Effective date:

October 1, 1983.

MEDICARE

Index part B deductible to Consumer Price Index.

Current law and background:

Under present law, medicare part B beneficiaries are subject to a $75 annual deductible and are thus responsible for the first $75 of the cost of covered services (with certain exceptions). The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), section 2134, increased the deductible from $60 to $75 beginning with calendar year 1982. This was the first increase in the deductible since 1973.

Description of proposal:

The administration's proposal would index the part B deductible to the Consumer Price Index (CPI) beginning in 1983.

Impact:

The administration projects that under this proposal, the annual part B deductible for 1983 will be $81, rising to $99 in 1987. These increased deductibles will be borne by medicare beneficiaries. It estimates that this proposal will reduce program expenditures in fiscal year 1983 by $65 million.

Effective date:

January 1, 1983.

Delay initial eligibility date for medicare entitlement.

Current law and background:

Under current law, eligibility for medicare begins on the first day of the month in which an individual reaches age 65.

Description of proposal:

The administration's proposal would delay eligibility for both parts A and B of medicare to the first day of the month following the month in which an individual reaches age 65.

Impact:

Enactment of this provision would result in the loss of one month's benefits for all medicare eligible individuals reaching age 65 in the future. The specific impact of this provision on individuals cannot be determined, however, as it will depend on the remaining health coverage the individual may have and the condition of his or her health. For some the impact will be slight; for others it could be catastrophic.

Actuaries at the Department of Health and Human Services estimate that in 1983 this provision would delay part A benefits to 1.4 million individuals and part B benefits to 2.0 million. (A majority of those affected would experience a delay in both.) The administration estimates that this provision will reduce program expenditures by $145 million in fiscal year 1983.

Effective date:

July 1, 1982.

Require coinsurance for home health services under medicare.

Current law and background:

Under current law, medicare beneficiaries are not required to pay coinsurance for home health services.

Description of proposal:

The proposal would require coinsurance for all home health visits. The administration is recommending that 5 percent coinsurance be established, but has not yet determined how the coinsurance will be calculated.

Impact:

The administration estimates that this proposal will reduce program expenditures by $35 million in fiscal year 1983. The coinsurance amounts will be borne directly by medicare beneficiaries.

Effective date:

January 1, 1983.

Working aged.

Current law and background:

Under present law, medicare is the primary payor with respect to all other insurance with the exception of workmen's compensation, certain liability insurance and, under certain circumstances, group insurance plans covering end stage renal disease.

The Federal Age Discrimination in Employment Act (ADEA) prohibits employment bias on the basis of age between 40 and 70 for most workers in the private sector. The Department of Labor has promulgated implementing regulations with special requirements applicable for employee health benefits for persons over age 65. The ADEA regulations permit an employer to "carve out" from his health plan those benefits that are actually paid for by medicare. Thus, the employer's plan may pay for only those expenses it insures against that are not paid for under the Government's program. As an alternative, an employer can offer employees eligible for medicare a separate plan that supplements medicare provided it meets certain requirements.

Description of proposal:

The administration's proposal would require employers to offer employees aged 65 to 69 the same health benefit plan offered to younger workers and make medicare the secondary payor to these plans. Where employers do not offer aged employees the same benefits as younger employees, the employer would be denied 50 percent of the tax deduction for health benefit expenses. The administration says that the working aged proposal would apply to all employers including nonprofit and government employers. The administration has not at this time recommended sanctions to apply specifically to nonprofit and government employers who do not comply with the nondiscrimination provisions of the proposal.

Impact:

The administration anticipates that the cost impact of this proposal on the employer will not be significant and anticipates that the proposal's effect on employment of the elderly will be minimal. Other groups, however, have expressed concerns over the potentially negative impact on the employment of the elderly and especially the burden it might place on employers with a high proportion of elderly workers. The administration anticipates that this proposal would affect 475,000 individuals, 160,000 of whom would be spouses. Outlays for fiscal year 1983 would be reduced by $303 million. However, there will be some revenue loss as a result of increased employer and employee deductions which has not been included in the cost estimate.

Effective date:

July 1, 1982.

Reduce reimbursement for hospital costs by 2 percent.

Current law and background:

Medicare reimburses hospitals based upon their "reasonable costs." "Reasonable costs" are determined by medicare based upon actual costs incurred by the individual hospital in furnishing covered services to beneficiaries. The Secretary of Health and Human Services establishes by regulation the methods to be used and the items to be included in determining the reasonable cost of covered care.

Description of proposal:

The proposal would disallow reimbursement equal to 2 percent of reasonable costs.

Impact:

The administration estimates that the fiscal year 1983 savings will be $653 million. Hospitals would not be permitted to pass any of the reductions along to beneficiaries in the form of increased cost-sharing. The administration argues that the hospital can absorb a 2-percent reduction in reimbusement without passing it on to other payors. On the other hand, hospitals, insurers and others say that hospitals will shift the unreimbursed costs to nongovernmental patients. If hospitals fail to reduce their costs, they will probably shift these costs to private pay patients. See appendix C for the CBO analysis of this issue.

Effective date:

July 1, 1982.

Waiver of liability.

Current law and background:

Under current law, payment may be made to an institutional provider of services under medicare for certain services furnished to an individual that are not covered or that are determined to be not medically necessary, if the provider could not have known that payment would be disallowed for such items or services. The provider's liability for a claim is waived as long as his rate of erroneous claims is less than 2.5 percent of days billed in the case of hospitals, 2.5 percent of visits billed in the case of home health agencies, and 5 percent of days billed in the case of skilled nursing facilities. If the provider's error rate exceeds these guidelines, no waiver is granted to that provider until it is lowered to within these guidelines.

Description of proposal:

The administration's proposal would eliminate the waiver of liability provision for providers of services. Waiver provisions protecting beneficiaries would continue in effect.

Impact:

If there is no waiver of liability, reimbursement for uncovered services would be denied retroactively. Outlays for fiscal year 1983 would be reduced by $10 million.

Effective date:

July 1, 1982.

Update part B fee screens on October 1.

Current law and background:

Under current law, year-to-year increases in the charges billed by physicians that are recognized for reimbursement purposes (as "reasonable charges") under part B of medicare are limited by customary and prevailing charge screens or limits which are updated every July 1.

Description of proposal:

The budget proposal would postpone the July 1, 1982, update of both screens to September 30, 1982, and would establish all future updates on October 1 of each year.

Impact:

Under current law, the methodology used for determining physician reimbursement fee screens is already on average 18 months behind the actual charge levels. This proposal will increase the lag to 21 months on average. The administration believes that this proposal will not have a significant effect on assignment rates. The administration estimates that this proposal will reduce the outlays for fiscal year 1983 by $210 million.

Effective date:

July 1, 1982.

Limit to 5 percent the increase in the economic index used to determine physician fees.

Current law and background:

Under current law, medicare reimburses physicians on the basis of the "reasonable charge" for a specific service. In the absence of unusual medical complications or certain other circumstances, the reasonable charge can be (1) no higher than the individual practitioner's customary charge for that service; (2) no higher than the applicable prevailing charge made for similar services in the locality; and (3) no higher than the actual charge of the individual physician rendering the service.

The prevailing charge is the upper limit in a locality on the charges for a specific procedure which a carrier will accept as reasonable for payment purposes, unless there are unusual circumstances or medical complications. The prevailing charge for a specific service is set at a level no higher than is necessary to cover the 75th percentile of the customary charges. The charge level is updated every July based on charge data obtained for the previous calendar year. The 1972 Social Security Amendments provided that increases in prevailing charges would be limited only to the extent justified by economic indices reflecting changes in the operating expenses of physicians and general earning levels.

Description of proposal:

The proposal would impose a one-time limit on the rate of increase in the economic index. The index would increase by 5 percent (instead of an anticipated 7.8 percent) on July 1, 1982. This reduction would also have the effect of reducing reimbursement in future years by reducing the base year upon which increases are calculated.

Impact:

The administration argues that this proposal will have a minimal effect on reimbursement amounts, and they anticipate it will not significantly affect assignment rates. The administration estimates that this proposal will reduce the outlays for fiscal year 1983 by $35 million.

Effective date:

July 1, 1982.

Reimburse inpatient radiology and pathology services at 80 percent of reasonable charges.

Current law and background:

Under current law, radiologists and pathologists who agree to accept assignment for all services furnished to hospital inpatients are reimbursed for 100 percent of their reasonable charges. Such services are not subject to the usual deductible or coinsurance requirements of the part B program.

Description of proposal:

Under the administration's proposal, medicare would pay 80 percent of the reasonable charges, the same as it now pays in the case of other physician services. The part B deductible would also apply to such services.

Impact:

The difference between the medicare reimbursement and the physician's actual charge would be borne by the beneficiary.

In response to a question about the possible negative impact this provision could have on medicare assignment rates, the administration said: "Historically, radiologists and pathologists who bill directly have had assignment rates higher than the national average . . . On the basis of this historical experience, adverse effects on the assignment rate from this proposal should not be expected." The administration estimates that this proposal will reduce program outlays in fiscal year 1983 by $160 million.

Effective date:

July 1, 1982.

Repeal hospital utilization review.

Current law and background:

In the absence of a PSRO, hospitals, skilled nursing facilities, and rural clinics are required to review admissions, duration of stay, and use of health facilities and services through utilization review committees within their own institutions.

Description of proposal:

The statutory requirement for utilization review committees would be repealed. This same proposal was not adopted by the Congress when recommended last year.

Impact:

The administration's budget shows savings of $83 million in fiscal year 1983. This does not include any assumptions with respect to offsetting increases in expenditures resulting from increased utilization.

Effective date:

July 1, 1982.

Reform of health care financing.

Current law and background:

From 1970 to 1977, inpatient expenditures in community hospitals increased at an average annual rate of 14.6 percent. After a marked slowing in 1978 and 1979, hospital costs have begun to accelerate rapidly. The annual rate of increase for the first 8 months of 1981 was 18.5 percent. According to the Congressional Budget Office, for every one percent increase in total hospital costs, Federal outlays for medicare and medicaid increase by roughly $300 million.

It is argued that perverse incentives have dampened market forces within the health care industry permitting prices to rise at a much higher rate than the general rate of inflation. The administration cites provider reimbursement, coinsurance arrangements that distort price-consciousness in choice of provider and promote excess utilization of services, and inadequate incentives to promote cost-effective health care systems as factors contributing to the rapid growth in health care costs.

Description of proposal:

The Reagan administration intends to propose, later this year, measures to improve market forces in the health care industry and in the medicare program. Details of such proposals have not yet been presented to the Congress. They might include increased cost-sharing for medicare beneficiaries; a medicare voucher system; changes in the tax code with respect to employer-paid health benefits; and multiple choice of health plans for employees.

Impact:

The proposal would have no budget effect in fiscal year 1983. The administration projects a savings of nearly $2 billion in fiscal year 1984 and $4.1 billion in fiscal year 1985.

Effective date:

October 1, 1983.

Impose the hospital insurance (HI) tax on Federal employees.

Current law and background:

Under present law, with respect to social security covered employment, employers and employees each pay 6.7 percent of wages up to $32,400 into the OASDHI (old age, survivors, disability and hospital insurance) trust funds. The 6.7 percent is allocated 5.4 percent to the trust funds and 1.3 percent to the HI trust fund.

Persons who are 65 or over and are fully insured (in general, 40 quarters of coverage) are automatically eligible for part A hospital insurance coverage under medicare. All persons 65 or over, whether insured or not, may elect to enroll in part B for coverage of physician and other services by paying a monthly premium.

Federal employees receive health benefits under the Federal Employees Health Benefits Act (FEHBA). Upon retirement, Federal employees may continue their enrollment in the FEHBA program as long as they continue to pay the monthly premium.

The administration estimates that between 60 percent and 80 percent of Federal retirees are covered by medicare based upon their own or their spouse's non-Federal employment. For those persons who are dually entitled, medicare is the primary payor and FEHBA benefits are reduced by the amount of the medicare payment.

Description of the proposal:

The HI portion of the social security tax would be imposed on Federal wages (1.3 percent of wages up to $32,400). As in the case of social security covered employment, Federal employees would be entitled to medicare coverage when they turned 65 if they have earned 40 or more quarters of coverage. The administration is reviewing alternative transitional arrangements for Federal employees who are nearing retirement and would not be able to qualify for medicare coverage because they had contributed for less than 40 quarters.

Impact:

Approximately 2.6 million Federal employees would be subject to the HI tax. The administration estimates that in fiscal year 1983 the increased revenues to the HI trust fund would be $1,238 million. Since one-half of the amount would be paid by the Federal Government as employer, the net increase in Federal revenues would be $619 million in fiscal year 1983. At the present time, the administration has decided that all Federal agencies will be required to absorb the employer share of the tax within their fiscal year 1983 budget requests. The estimate does not include increased medicare outlays for new covered workers.

Effective date:

The tax would be imposed beginning January 1, 1983.

Repeal of certain coverage provisions enacted in 1980.

Current law and background:

Under section 933 of the Omnibus Budget Reconciliation Act of 1980 (Public Law 96-499), effective July 1, 1981, comprehensive outpatient rehabilitation facilities are recognized as providers under medicare.

Section 935 of that same act increased the annual limitation on outpatient services furnished by independently practicing physical therapists from $100 to $500, effective with expenses incurred in calendar year 1982.

Congress did not adopt a proposal made last year by the administration to repeal these two provisions.

Description of proposal:

The administration proposes to repeal both provisions.

Impact:

Section 933, comprehensive outpatient rehabilitation facilities, which was scheduled to become effective on July 1, 1981, has yet to be implemented because the administration has failed to issue the necessary regulations. The administration estimates that repeal of this provision will save $15 million in fiscal year 1983. Repealing the increased limit on independently practicing physical therapists will reduce program expenditures by $4 million in fiscal year 1983.

Effective date:

July 1, 1982.

Elimination of end stage renal disease networks.

Current law and background:

Currently section 1881(c)(1)(A) of the Social Security Act requires the establishment of renal disease network areas and network organizations, and the establishment of a national end stage renal disease medical information system.

Each ESRD network organization is comprised of a coordinating council, an executive committtee of the council and a medical review board. Networks provide advice to PSRO's and health planning agencies on the quality of medical services given to ESRD patients and the need for ESRD facilities and services. The networks are also responsible for encouraging the placement of patients in the most appropriate and least costly treatment settings.

Description of proposal:

The proposal would abolish the end stage renal disease network areas and organizations; however, the requirement for a national medical information system would be retained.

The administration proposed repeal of the end stage renal disease network organizations last year but the proposal was not adopted by the Congress.

Impact:

Medical information system requirements for collecting data would be retained although the mechanism for collecting data remains unclear. The administration estimates that this proposal will reduce program outlays in fiscal year 1983 by $5 million.

Effective date:

July 1, 1982.

Eliminate funding for State review activity under section 1122.

Current law and background:

Under section 1122 of the Social Security Act, the Secretary of Health and Human Services is required to enter into an agreement with any State which is willing and able to undertake the review of certain capital health care expenditures to determine whether such expenditures are appropriate. Under such an agreement, a designated State planning agency reviews the necessity of any capital expenditure which exceeds $100,000; which changes the bed capacity of a facility; or which substantially changes the services of a facility. If the State determines that a capital expenditure is unnecessary, then no payment for such expenditure is made under medicare or medicaid.

As of January 1982, 15 States and one territory have section 1122 agreements. Under the statute, the Secretary is required to pay those jurisdictions from the hospital insurance trust fund for the cost of performing an 1122 function.

Section 1122 was passed in 1972, prior to the enactment of the National Health Planning and Resources Development Act which provided funding for State health planning agencies through the Public Health Service. Since Public Health Service funds cover the cost of such planning programs, there has been no expenditure of funds under 1122 since 1975. However, the administration is proposing to terminate the health planning program. Thus, it is anticipated that the 16 jurisdictions which now have 1122 agreements would request funds for the costs of their programs.

Description of proposal:

Although the provisions of section 1122 would be maintained, the requirements providing funds to States for the cost of review would be eliminated. Where a State enters into an 1122 agreement and determines that certain capital expenditures are unnecessary, reimbursement penalties under medicare and medicaid would continue to be imposed.

Impact:

The administration estimates that the proposal would save $10 million in fiscal year 1983. The estimate does not include any assumptions with respect to increases in medicare reimbursement which may result if States terminate their programs.

Effective date:

October 1, 1982.

Repeal of Professional Standards Review Organizations (PSRO's).

Current law and background:

The Social Security Amendments of 1972 provided for the establishment of Professional Standards Review Organizations (PSRO's) throughout the country which are charged with the comprehensive and on-going review of services provided under medicare and medicaid. PSRO's determine, for purposes of reimbursement under these programs, whether services are: (1) medically necessary, (2) provided in accordance with professional standards, and (3) in the case of institutional services, rendered in the appropriate setting.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) required the Secretary of Health and Human Services to assess the relative performance of PSRO's prior to October 1, 1981. The Secretary was authorized, based on such assessment, to terminate no more than one-third of all PSRO's prior to October 1, 1982. Under the new law, PSRO's will no longer be reimbursed directly for review of medicaid services. Rather, a State will have the option of contracting with a PSRO for medicaid review at a Federal matching rate.

Description of proposal:

The administration proposes to repeal the PSRO program effective July 1, 1982. As a part of the President's fiscal year 1982 budget, the administration had proposed to terminate the PSRO program effective October 1, 1983. That proposal was not adopted by the Congress.

Impact:

The administration shows a $15 million savings in direct costs in fiscal year 1983. The estimate does not assume any offsetting increases in expenditures resulting from increased hospital utilization.

Effective date:

July 1, 1982.

Medicare carrier and intermediary contracting.

Current law and background:

Under present law, the medicare claims process is administered by HHS through contracts with private insurance companies and Blue Cross/Blue Shield plans under which the contractors are reimbursed for the costs they incur. In general, contractors called "intermediaries" process part A claims (services provided by hospitals, nursing homes and home health agencies) and contractors called "carriers" process part B claims (services provided by physicians, other practitioners and suppliers).

There are several current medicare contracting experiments now underway, including experiments in Maine, Illinois, and upstate New York, designed to test competitive fixed-price contracting. Each experiment has placed the contractor at risk and provides for only minimal price adjustment and for monetary penalties for deficient performance.

Description of proposal:

The administration proposes that the following changes be made in the present provisions of law relating to medicare contracts with outside organizations to determine and pay medicare claims: (1) eliminate the right of providers of services to nominate the organizations of their own choice to process medicare claims; and (2) provide greater flexibility in the contractor selection process, including the use of fixed-price competitive contracting.

Impact:

According to administration sources, the proposal would convert two intermediaries and two carriers to a competitive contracting basis in fiscal year 1983, and, in each of the next four years, would provide for conversion to competitive contracts of four intermediaries and four carriers for a total of 36 contracts in five years. The administration estimates that the proposal would cost $1 million in fiscal year 1983, but would produce significant future savings.

Effective date:

October 1, 1982.

Administrative costs for a catastrophic cap.

Current law and background:

Beneficiaries are not subject to any cost sharing during the first 60 days of inpatient hospital services after the initial inpatient deductible ($260 in 1982). For days 61–90, a coinsurance amount is imposed ($65 in 1982). When more than 90 days are required in a benefit period, a patient may elect to draw upon a 60-day lifetime reserve. A coinsurance amount ($130 in 1982) is applicable to each such day.

Description of proposal:

The proposal would provide administrative funds to implement a recommendation under development by the administration to require medicare beneficiaries to pay additional coinsurance for hospital stays and to limit beneficiary expenditures by imposing an annual catastrophic cap on out-of-pocket expenses. The administration has indicated that it may include this proposal in its legislative recommendations to the Congress on health care "competition."

Impact:

The proposal would cost $6 million in fiscal year 1983.

Effective date:

October 1, 1982.

Elimination of requirement for a Railroad Retirement Board carrier contract.

Current law and background:

The Railroad Retirement Board is required to contract with a carrier or carriers to handle medicare part B payments with respect to railroad retirement beneficiaries. The Board has contracted with Travelers Insurance Company to serve as carrier nationwide; in contrast, other medicare carriers serve smaller geographic areas.

Description of proposal:

The administration proposes to repeal the provision under which the Railroad Retirement Board chooses the part B carrier for railroad beneficiaries.

Impact:

The Congress did not adopt this proposal when recommended last year by the administration. They point out that in 1980 Travelers' average cost for processing a claim was $3.06 whereas the average cost per claim for all medicare contractors was $2.69. The administration estimates this provision will save $2 million in fiscal year 1983.

Effective date:

October 1, 1982.

Regulatory proposals.

Private room reimbursement—Would reduce medicare reimbursement to hospitals by the amount of the cost differential for private rooms that are not medically necessary. The estimated savings for fiscal year 1983 would be $54 million.

Single reimbursement rate for SNF's and HHA's—A single reimbursement limit would be established for hospital-based and freestanding skilled nursing facilities, and a single reimbursement rate would be established for hospital-based and freestanding home health facilities. The provision would result in a savings of $18 million in fiscal year 1983.

HCFA/private sector utilization review—Would place more responsibility on medicare contractors and private sector efforts to reduce unnecessary hospital days and services. The administration estimates savings of $330 million in fiscal year 1983.

Hospital-based physicians—Would limit the reimbursement to hospital-based physicians. This might include limitations on payments to anesthesiologists; prohibition of payments for services which could be performed by nonphysicians; and limitations on physician percentage arrangements. The projected savings for fiscal year 1983 would be $63 million.

Composite renal rate—Would implement provisions of Public Law 96-499 to provide an alternative method for reimbursing renal dialysis facilities to encourage more cost-effective delivery of services. The savings from this provision are projected to be $130 million.

Physician reimbursement in hospital outpatient departments—Would reduce reimbursement to physicians rendering care in hospital outpatient departments. Estimated savings are $160 million.

TRADE ADJUSTMENT ASSISTANCE

Eliminating trade readjustment allowances (TRA), except for workers enrolled in approved training.

Current law and background:

Under present law, workers certified by the Secretary of Labor as eligible for trade adjustment assistance may receive weekly trade readjustment allowances (TRA) equal to their weekly unemployment compensation (UC) after they exhaust UC for up to a combined maximum of 52 weeks on UC and TRA. Workers enrolled in approved training, however, may receive up to an additional 26 weeks of TRA immediately following exhaustion of their regular TRA if they applied for training within 210 days of the later of the date on which they were certified for benefits or the date they lost their jobs.

The administration's estimated funding levels for the current program are based on the following number of recipients and average level and duration of benefits:

CURRENT PROGRAM

[Dollars in millions]

Year	Outlays	Number of recipients	Average weekly benefit	Weeks duration
1982	$144	74,375	$160	12.1
1983	118	54,900	170	12.6
1984	81	27,440	180	16.4
1985	65	20,580	190	16.6
1986	63	20,580	200	15.3
1987	60	20,000	200	15.0

Description of proposal:

The administration will propose legislation to eliminate all TRA benefits as of July 1, 1982, except to workers already enrolled in approved training as of that date.

Impact:

The administration estimates that savings for fiscal year 1982 will be $26 million. While most claimants drawing on the cutoff date would be affected by having some of their entitlement reduced, it is estimated that only a small number of individuals will not receive any benefits as a result of the legislation. In fiscal year 1983 the administration estimates that 6,250 claimants in training will draw benefits of $10 million. The savings in outlays for the year is estimated to be $108 million with 48,650 individuals affected.

The number of recipients, average weekly benefit and duration are shown below.

Year	Outlays (millions)	Number of recipients	Average weekly benefit	Weeks duration
1982	$118	73,750	$160	10.0
1983	10	6,250	160	10.0
1984–1987	0	0	0	0

The above figures all assume extension of the program beyond its statutory September 30, 1983, termination date.

Effective date:

July 1, 1982.

Restructuring of training, job search and relocation services.

The administration will propose legislation to establish a "special targeted program" for certain groups with particular disadvantages in the labor market that require special nationally administered programs. Among the groups to be served are Indians and other native Americans, migrant and seasonal farmworkers, older workers, and those certified eligible for trade adjustment assistance (TAA). New budget authority of $200 million ($180 million outlays) is proposed for this program in fiscal year 1983. At this time, no allocation of the total funds has been made for TAA training costs and job search and relocation allowances.

Budget authority of $25 million for TAA training and job search and relocation allowances is included in the concurrent budget resolution for fiscal year 1982 from a CETA discretionary account.

Administration funding in fiscal years 1982 and 1983 for training of various groups to be included in the special program is shown below as supplied by the Department of Labor:

[In millions of dollars]

	Current law, fiscal year—		Proposed fiscal year 1983
	1981 (actual)	1982 (estimate)	
Budget authority:			
Special targeted program			200
Native Americans	81	69	
Migrants and seasonal farmworkers	83	70	
Trade adjustment assistance	8	25	
Other title III programs	315	1	
Total	487	166	200
Outlays:			
Special targeted program			180
Native Americans	80	82	16
Migrants and seasonal farmworkers	84	87	16
Trade adjustment assistance	7	20	4
Other title III programs	226	235	22
Total	397	424	237

Elimination of funding for trade adjustment assistance for firms.

The administration proposes elimination of funding for the trade adjustment assistance (TAA) program for firms in fiscal year 1983, a budget savings of $30.094 million as follows:

[Dollars in thousands]

	Fiscal year 1982 currently available	Fiscal year 1983
Direct loans	$12.484	$15.000
Technical assistance	13.094	13.094
Loan guarantee authority [1]	(28.250)	(28.250)
Program operations	[2] 2.000	[2] 2.000
Total	[3] 27.578	[3] 30.094

[1] Represents contingent liability and is not included in budget authority or outlays.

[2] Supports 28 permanent staff positions.

[3] Difference in fiscal year 1982 and 1983 represents $2.516 million used to absorb ITA pay raises in 1982.

UNEMPLOYMENT COMPENSATION

Modifications in unemployment compensation for ex-servicemembers (UCX).

Current law and background:

Under present law ex-military personnel may receive unemployment compensation (UCX) if they meet the following conditions: (1) their service was continuous for at least 365 days or was terminated earlier because of a service-incurred injury or disability; (2) they were discharged under honorable conditions; (3) they did not resign or voluntarily leave the service; and (4) they were not released or discharged for cause as defined by the Department of Defense.

The House passed a bill (H.R. 4961) on December 15, 1981, to amend present law, but the Senate has not acted on it. H.R. 4961 would: (1) increase the required length of continuous service from 365 to 730 days; (2) require ex-military personnel to have been discharged under other than dishonorable conditions; (3) require a 4-week waiting period between the week of military separation and UC entitlement; and (4) limit potential UC to at most 13 weeks. These provisions would apply to military separations on or after June 30, 1981, for UC claimed for unemployment on or after the date of enactment.

Description of proposal:

The administration proposes to limit present law further by allowing UC only for personnel who have been involuntarily discharged under honorable conditions because of demobilization, reduction in force, or disability incurred while in the service. This would exclude not only those who voluntarily leave the military under honorable conditions, as provided by the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), but would also exclude those who leave the military because of a "record of indiscipline or failure to maintain skill proficiency."

Impact:

UCX would be payable only to individuals involuntarily discharged under conditions of demobilization, reductions in force, or disability incurred while in the military service. Savings and individuals affected are estimated by the administration to be: $5 million and 2,000 individuals in fiscal year 1982, and $30 million and 14,000 individuals in fiscal year 1983.

Effective date:

Effective for separations occurring after the date of enactment (July 1, 1982 for estimating purposes).

Rounding unemployment compensation benefits down to the dollar.

Current law and background:

Under present law the States may determine rounding procedures to apply in the calculation of an individual's weekly unemployment compensation (UC) program benefit.

Discription of proposal:

The administration proposes requiring the State UC programs to round individual weekly UC benefits down to the dollar.

Impact:

Effective July 1, 1983, State laws would be required to provide that where the weekly benefit amount (WBA) is not an even dollar amount, the WBA will be rounded down to the next lower whole dollar amount. Administration estimates of savings for fiscal year 1983 are put at $6 million, and $33 million in fiscal year 1984. (Note: This proposal applies to other entitlement programs besides UC.)

Effective date:

July 1, 1983.

Repealing the railroad unemployment insurance program and covering railroad workers under the Federal-State unemployment insurance system.

Current law and background:

Present law under section 3306(c)(9) of the Federal Unemployment Tax Act (FUTA) exempts railroad workers from coverage in the Federal-State unemployment compensation (UC) system. The Railroad Unemployment Insurance Act (45 U.S.C. 351) covers these workers instead. The House Committee on Energy and Commerce has jurisdiction over the railroad UC program, but the House Committee on Ways and Means has jurisdiction over the coverage exemption in FUTA for railroad workers.

The Federal-State UC system originally covered railroad workers in 1935. The Railroad Unemployment Insurance Act of 1938 changed this situation, however, by establishing a separate Federal UC program for railroad workers. The program was created for two reasons: (1) since railroads operated continuously for long time periods, it was felt that the industry needed a separate UC program allowing for unemployment in a period longer than the weekly basis used in the Federal-State UC system; (2) because railroad workers' jobs moved across State boundaries, they were treated differently in each State and sometimes they were ineligible for UC in all States.

The railroad UC program is financed by an industry-wide tax on the first $400 paid monthly to each employee by employers. The tax varies inversely with the balance in the Railroad Unemployment Insurance Account from 0.5 to 8 percent. The program partially replaces wage loss resulting from involuntary unemployment or sickness (including maternity). A worker qualifies if he earned at least $1,000 of "creditable compensation" in his base year, counting no more than $400 in any month. He must be able to work and be available to work. Benefits are 60 percent of the worker's last straight-time daily rate of pay for days of unemployment exceeding 4 in a 14-day registration period. The minimum and maximum daily benefits range from $12.70 to $25, or $63.50 to $125 per week, respectively. Normal benefits last for 130 days or 26 weeks in a benefit year, but workers exhausting normal benefits may receive extended benefits. Workers with at least 15 years of service may receive an additional 130 days or 26 weeks and those with 10 to 15 years of service may receive an additional 65 days or 13 weeks. Workers with less than 10 years of service may not receive extended benefits.

Description of proposal:

The administration proposed repealing the railroad UC program and covering railroad workers under the Federal-State UC system.

Impact:

The administration has not yet estimated the impact. The estimated outlays for railroad UC in the President's budget were $256, $235, $232, and $228 million in fiscal years 1982 through 1985, respectively.

Effective date:

October 1, 1982.

SOCIAL SECURITY

No major social security financing legislation is contained in the administration's budget. The President awaits the recommendations of the new National Commission on Social Security Reform, due to report by December 31, 1982. However, there are a number of proposals in the fiscal year 1983 budget affecting the administration and coverage of social security.

COVERAGE OF RAILROAD WORKERS UNDER SOCIAL SECURITY.

The Reagan administration proposes to "defederalize" the railroad retirement system. Under the proposal, all rail employment would be directly covered by the social security system beginning in October 1982. The social security-related segment of current railroad retirement benefits would be administered directly by the Social Security Administration, and the Railroad Retirement Board would be eliminated as a Federal agency.

With the exception of dual entitlement "windfall" benefits, all remaining railroad retirement benefits would be classified as industry pension benefits and administered by a private rail industry pension plan. Ownership of the assets of the current railroad retirement account would be transferred to a newly created private corporation which would operate the rail industry pension plan like other multiemployer private pension plans except that all present benefit liabilities which would be assumed by the industry plan would be exempt from the funding standards of the Employee Retirement Income Security Act of 1974 [ERISA]. ERISA would apply only to newly negotiated benefits.

Dual entitlement "windfall" benefits, which are available to a closed group of persons who were entitled to both social security and railroad retirement benefits prior to 1975, would continue to be administered by the Federal Government. However, no decision as to which Federal agency would have this responsibility has been revealed.

The proposal also calls for an acceleration of the final financial interchange payment of approximately $2.1 billion from the social security trust funds to the railroad retirement account from June 1983 to September 1982.

This proposal would affect both the unified budget and the social security trust funds. Since the non-social security related portions of the railroad retirement system which currently have a projected deficit would be moved off-budget, the unified budget deficit is decreased. The overall effect on the deficit is as follows:

[In billions of dollars]

	Fiscal year—				
	1983	1984	1985	1986	1987
Receipts	−1.744	−1.838	−1.930	−2.041	−2.146
Outlays	−1.992	−2.212	−2.432	−2.549	−2.742
Net deficit reduction	−.248	−.374	−.502	−.508	−.596

The social security trust funds (OASDHI) would also be affected by the proposal through both the acceleration of the financial interchange in fiscal year 1982 and the assumption of social security benefits currently paid from the railroad retirement account. The overall effect on the social security trust funds is as follows:

[In billions of dollars]

	Fiscal year—					
	1982	1983	1984	1985	1986	1987
New FICA receipts	.374	1.434	1.500	1.640	1.724	1.776
New FICA outlays	2.091	1.390	1.386	1.374	1.578	1.645
Net effect on trust funds	−1.717	+.044	+.114	+.266	+.146	+.131

MISCELLANEOUS ADMINISTRATIVE DISABILITY PROPOSALS

The budget document presents the following four proposals as changes to be incorporated in the 1983 Appropriations Act. They are, however, proposals that would alter the Social Security Act, which falls under the jurisdiction of the Committee on Ways and Means, and therefore would have to be acted on by this committee in order to be incorporated as permanent features of the law. While all four proposals limit administrative expenses, and therefore, according to Administration estimates, lower expenditures, the limitation on administrative expenses for the first two proposals could increase benefit expenditures by more than the administrative savings.

Payment for medical evidence of record.

Current law and background:

The 1980 amendments authorized the payments to physicians and other potential sources of medical evidence for medical information otherwise in existence when a claimant files an application for disability insurance. Such authority already existed in the SSI disability program.

Description of proposals:

No expenditures would be allowed for disability insurance evidence of record. SSI authorization would remain.

Impact:

This is estimated to save $11.4 million in fiscal year 1983. The impact of benefit expenditures in not stated, but better medical documentation of cases is generally recognized as one of the major factors in the favorable experience in the disability program in recent years.

Pre-effectuation review.

Current law and background:

The 1980 amendments required the review of 15 percent of State agency disability insurance allowances and continuations of benefits in 1981: 35 percent in 1982; 65 percent in 1983 and thereafter. HHS was to report on the feasibility and cost-benefits effects of going to a 65 percent review.

Description of proposal:

No expenditures would be allowed to increase the review from 35 percent to 65 percent.

Impact:

This is estimated to save $9.5 million in fiscal year 1983. The HHS report stated that the "reviews will not be as cost effective in fiscal year 1983 if the review level increases to 65 percent as provided by present law, primarily because (a) the number of erroneous allowances detected will decline as the proportion of the universe reviewed increases; (b) large numbers of inexperienced staff will, of necessity, be conducting the reviews; and (c) there will likely be a shortage of medical consultants and a resultant decline in review effectiveness."

Personalized denial notice.

Present law and background:

The 1980 amendments required that an unfavorable decision on disability "shall contain a statement of the case, in understandable language, setting forth a discussion of the evidence, and stating the Secretary's determination and reasons or reasons upon which it is based."

Description of proposals:

No expenditures would be allowed for notices of unfavorable decisions provided that they contain "only that level of information contained in such notices" prior to the 1980 amendments.

Impact:

It is estimated that this would result in a savings of $31 million in fiscal 1983.

Attorneys fees.

Present law and background:

At the administrative level the Secretary of HHS is authorized to fix a reasonable fee for the services provided before the Social Security Administration for a social security applicant by an attorney and to pay such attorney's fee out of the applicant's past-due benefits. The amount that can be paid out of past-due benefits is limited to the smaller of (a) 25 percent of the past-due benefits; (b) the fee fixed by the Secretary; or (c) an amount agreed to by the applicant and the attorney. The Secretary shall certify for payment to the attorney the fee so fixed.

A court which renders a decision favorable to a claimant for social security benefits is permitted to set a reasonable fee for the attorney who represented the claimant before the court. The fee cannot exceed 25 percent for the past-due benefits which result from the court's decision. The Secretary may certify for payments to the attorney, out of the total of the past-due benefits, the amount of the fee set by the court.

Description of proposal:

No expenditures can be made for the fixing of reasonable attorneys fees and no funds can be certified for payment to any attorney as compensation for representing a claimant in administrative proceedings or proceedings before any court. However, this would be construed to limit the Secretary's authority to prescribe the maximum fees for attorneys.

Impact:

It is estimated that this would result in a savings of $7 million in fiscal 1983.

PART III

DESCRIPTION OF ADMINISTRATION'S REVENUE PROPOSALS

A. Income Tax Proposals

1. Completed Contract Method of Accounting

Present Law

Overview

Under present law, taxpayers may elect to use one of three accounting methods to account for income and deductions attributable to long-term contracts. (Long-term contracts generally are contracts that are not completed in the taxable year in which they are entered into.) Two of these methods, the completed contract method and the percentage of completion method, are commonly referred to as "long-term contract methods" and apply only to long-term contracts. The third method is the accrual method of accounting.

Long-term contract methods

Completed contract method

Under the completed contract method, income from long-term contracts is not recognized until the taxable year in which the contract is completed. A taxpayer may use this method even though payments are received and products are delivered and placed in service before completion of the contract.

Percentage of completion method

Under the percentage of completion method, the portion of income realized from a contract which corresponds to the percentage of the entire contract which has been completed during the year is included in gross income for that taxable year.

Contract costs and period costs

Under both the completed contract method and the percentage of completion method of accounting for long-term contracts, all of the contractor's costs must be allocated to the contract (called "contract costs") or allocated to the taxable year when paid or incurred (called "period costs"). Under the completed contract method, all contract costs are deducted in the year the contract is completed. Under the percentage of completion method, contract costs are deducted in the year paid or incurred.

Period costs are deductible in the year paid or incurred regardless of when income is recognized under the completed contract method or the percentage of completion method.

Under present Treasury regulations, costs that must be allocated to the contract include:

1. Direct material and labor costs.
2. Certain enumerated indirect costs, e.g., indirect labor, utilities, rental payments for equipment or facilities, and depreciation of capital equipment to the extent of depreciation taken into account for financial reporting purposes.

Indirect costs that may be deducted currently include:

1. Marketing and selling expenses, including bidding expenses;
2. Advertising expenses;
3. Other distribution expenses;
4. Interest;
5. General administrative expenses;
6. Research and development;
7. Certain losses;
8. Pension and profit-sharing contributions;
9. The excess of cost recovery allowances over book depreciation on capital assets;
10. The excess of percentage depletion over cost depletion;
11. Depreciation and amortization on idle equipment and facilities;
12. Income taxes attributable to long-term contracts;
13. Costs attributable to strikes, rework labor, scrap and spoilage; and
14. Compensation paid to officers attributable to long-term contractor's activities as a whole.

Accrual method

Under the accrual method of accounting, income and expenses (including the cost of inventory sold) can be recognized when the inventory is shipped or is accepted by the purchaser. Thus, in the case of a long-term contract involving a single item, the accrual method of accounting results in income recognition very similar to the completed contract method.

As in the case of the long-term contract methods of accounting, all of the contractor's costs must be allocated either to his inventory (called "inventoriable costs") or to the year in which paid or incurred (called "period costs"). Under the present Treasury regulations (commonly referred to as the "full absorption" regulations), direct production costs must be allocated to inventory and indirect production costs are allocated between inventory costs and period costs under two rules. The first rule applies to taxpayers whose method of accounting for production costs is comparable for tax and financial reporting purposes. In such a case, the regulations provide that certain specified indirect production costs must be inventoried, that certain specified items are treated as period costs, and that other costs are inventoried for tax purposes where they are inventoried for financial reporting purposes. The second rule applies to taxpayers who do not use comparable accounting methods for tax and financial reporting purposes. In such a case, the regulations provide essentially the same allocation of costs provided for under the long-term contract methods of accounting.

Administration Proposal

Overview

The Administration has proposed changes to both the Treasury regulations and the provisions of the Internal Revenue Code that relate to accounting for long-term contracts. The legislative changes would, if enacted, render moot some of the regulatory changes.

Regulatory proposal

Treatment of indirect costs

Under current regulations, certain indirect costs incurred by a taxpayer in the performance of particular long-term contracts must be allocated to such contracts. However, other costs (such as general and administrative expenses, interest, research and experimental expenses, accelerated depreciation, pension costs and other employee benefits) are treated as costs which are not required to be allocated to long-term contracts, even if such costs are incurred in the performance of particular long-term contracts.

The regulations would be amended to require that all indirect costs that directly benefit the performance of long-term contracts and an appropriate part of all other indirect costs must be allocated to long-term contracts. The only exceptions to this general rule would be the following expenses:

(a) General marketing, selling and advertising expenses;

(b) Bidding expenses incurred in the solicitation of contracts not awarded to the taxpayer;

(c) Research and experimental expenses neither directly attributable to particular long-term contracts in existence at the time such expenses are incurred nor incurred under any agreement to perform such research or experimentation;

(d) Losses under section 165 and the regulations thereunder;

(e) Depreciation and amortization on idle equipment and facilities;

(f) Income taxes attributable to income received from long-term contracts;

(g) Pension contributions to the extent that they represent past service costs; and

(h) Costs attributable to strikes.

Thus, indirect costs such as the cost of successfully bidding on a contract and pension and benefit costs for current employee services would be allocated to the long-term contract.

Treatment of indirect production costs of inventory

Under existing regulations, taxpayers are not required to use a long-term contract method to account for contracts meeting the definition of a long-term contract. Taxpayers engaging in long-term contracts may use the accrual method of accounting with inventories, assuming the goods they manufacture constitute inventory. The proposal would amend the regulations to provide that taxpayers who use the accrual method and inventories to account for long-term contracts must allocate indirect production costs to the cost of inventory in the same manner that indirect costs would be allocated to long-term contracts under the proposal. Thus, whether a taxpayer used a long-term contract accounting method or the accrual method with inventories, the same indirect costs generally would be allocated to the contract or the goods produced under the contract, and the same indirect costs would be deductible as period costs.

Severing and aggregating long-term contracts

The regulations relating to long-term contracts would also be amended to clarify whether an agreement or series of agreements is considered one contract or more than one contract. Under present Treasury regulations, a series of agreements generally is not aggregated into a single contract unless customary commercial practice treats the agreements as a single contract or unless there is no business reason for entering into several agreements rather than a single agreement.

Under the proposal, the regulations would be amended to provide that two or more agreements will not be considered as a single contract if the agreements were priced independently. In addition, increases in the number of goods to be supplied under an agreement would be treated as one or more additional contracts.

Other regulatory changes

Under the proposal, the regulations relating to the accrual method of accounting for long-term contracts would also be amended to require the accrual of income and expenses upon the shipment or acceptance of each unit of a multi-unit contract. Thus, in the case of a multi-unit contract, a taxpayer using the accrual method would be unable to achieve the same result as under the completed contract method.

The regulations relating to long-term contract accounting would be modified to provide rules relating to when a contract is "completed." The proposed amendments will provide that a contract will be considered complete without regard to any term of the contract providing for additional compensation contingent upon the continued successful performance of the subject matter of the contract after the subject matter of the contract has been initially accepted by the purchaser (for example, an incentive bonus payable if a satellite remains in operation for twenty months after it is placed in orbit). Further, a contract will be considered complete without regard to any obligation on the part of the contractor to provide replacement parts or to supervise installation or assembly of the subject matter of the contract.

Legislative proposal

A new section would be added to the Internal Revenue Code to provide rules for accountng for long-term contracts, as defined in regulations to be prescribed by the Secretary. The new section would provide that all long-term contracts must be accounted for under either the percentage of completion method or a new method called the "progress payment method." Taxpayers would not be allowed to use the completed contract method or the accrual method to account for long-term contracts.

Under the progress payment method, the taxpayer would include in income all "payments" when the taxpayer has a right to the payment under the contract. The term "payment" would include certain borrowed amounts, such as loans from the purchaser and loans secured by the contractor's rights under the contract. Costs allocable to the contract would be deducted only when, and to the extent, the taxpayer includes payments in income. In effect, income will be recognized for a taxable year for a particular contract when cumulative payments under that contract for that taxable year and all prior years exceed all costs allocable to that contract for that year and all prior years to the extent that such excess payments have not been included in income for any prior taxable year. Losses would be recognized only when costs allocable to the contract for that year and all prior years exceed the total amount the taxpayer has a right to receive under the contract.

A special rule would be provided for advance payments received or accrued before work on a contract has commenced. Under this rule, advance payments would be included in income ratably over a 12-month period beginning with the month the payment is received or accrued. For advance payments that are a significant percentage of the total amount to be received under the contract, taxpayers would be permitted to request a longer period over which the payment would be included in income.

Costs allocable to the contract under either the percentage of completion method or the progress payment method would include all costs other than the following costs:

(a) General marketing, selling and advertising expenses;

(b) Bidding expenses incurred in the solicitation of contracts not awarded to the taxpayer;

(c) Research and experimental expenses neither directly attributable to particular long-term contracts in existence at the time such expenses are incurred not research or experimentation;

(d) Losses under section 165 and the regulations thereunder;

(e) Depreciation and amortization on idle equipment and facilities;

(f) Income taxes attributable to income received from long-term contracts;

(g) Pension contributions to the extent that they represent past service costs; and

(h) Costs attributable to strikes.

This allocation of costs would be the same as the allocation proposed under the Administration's regulatory proposal.

The determination of whether a taxpayer must recognize income for a particular year is made on a contract by contract basis. Thus, taxpayers may not offset income from one contract with costs of another contract. If for example, a taxpayer has two contracts, Contract A and Contract B, and progress payments exceed costs with respect to Contract A but not with respect to Contract B, the taxpayer will recognize income from Contract A, even if the excess costs from Contract B equal or exceed the income recognized from Contract A.

Effective date

The regulatory and legislative proposals would be effective for taxable years beginning after December 31, 1982.

Taxpayers required to change their method of accounting pursuant to the regulatory proposal are permitted to elect one of three transitional rules. Under the first rule, a taxpayer would be required to take any income adjustment resulting from the change into account in the year of change. However, such a taxpayer would be able to treat the change as one not initiated by the taxpayer and, thus, the adjustment would not include any amount attributable to a period before January 1, 1954. Under the second rule, a taxpayer would be permitted to spread any adjustment necessitated by the change over the lesser of 10 years or the number of years the taxpayer has been on its current method. However, to the extent a portion of the adjustment is attributable to a contract which is completed during a taxable year, such portion must be taken into account in that taxable year. The third rule provides that taxpayers may elect to use the cut-off method to account for the required change. Under this third approach, the new regulatory rules would apply only to contracts entered into after February 26, 1982.

Taxpayers required to change their method of accounting pursuant to the legislative proposal would use the cut-off method to account for the required change, but the new rules would apply only to contracts entered into after February 26, 1982. Under the cut-off method, payments and costs incurred in taxable years beginning after December 31, 1982, would be accounted for under the new method.

2. Business Energy Tax Incentives

Present Law

Overview

Under present law, investment tax credits and other tax incentives are provided to encourage businesses to purchase property used to conserve oil and gas or to produce alternative sources of energy. In addition, tax incentives are available to encourage production and use of fuels produced from coal, oil shale, wood, biomass, and alcohol.

Energy investment credit

In addition to the regular investment tax credit and cost recovery allowances, present law provides a nonrefundable energy tax credit for investments in certain business energy property. In general, the credit is 10 percent, although some types of energy property qualify for up to a 15-percent energy credit. Most of the business energy credits expire on December 31, 1982.

To be eligible for an energy credit, property must be depreciable with a useful life of three years or more. In addition, property must be new property. The energy credit (but not the regular credit) is available for structural components of a building that otherwise qualify as energy property.

Property eligible for a 10-percent energy credit includes alternative energy property (primarily equipment that uses a substance other than oil or natural gas as a fuel or feedstock), cogeneration equipment, recycling equipment, shale oil equipment, equipment for producing natural gas from geopressured brine, biomass property, and intercity buses. Specially defined energy property also qualifies for a 10-percent energy tax credit. Items specified as specially defined energy property include recuperators, heat wheels, heat exchangers, and automatic energy control systems. To be eligible, the principal purpose of the equipment must be to reduce the amount of energy consumed in an existing commercial or industrial process. In addition to the specified items, the Secretary may add additional items of qualifying property if certain standards are satisfied. That authority has not yet been exercised.

Low-head hydroelectric property qualifies for an 11-percent energy credit. A 15-percent energy credit applies to solar or wind energy property, ocean thermal equipment, and geothermal equipment.

Although most of the business energy investment credits expire on December 31, 1982, the credits for solar or wind equipment, geothermal equipment, ocean thermal equipment, biomass equipment, and intercity buses expire on December 31, 1985. The credit for low-head hydroelectric property expires in 1988. In addition, special rules allow businesses to claim credits on alternative energy property through 1990 for expenditures on projects for which an affirmative commitment has been made in a timely fashion.

Property used to provide electrical, gas, steam and other public utility services generally is not eligible for the energy credit.

Under double-dipping rules, the energy credit is reduced for property financed in whole or in part by subsidized energy financing or the tax-exempt proceeds of an industrial development bond.

The energy credit applies against all tax liability not offset by other tax credits. Excess energy credits from a taxable year may be applied, like regular investment credits, against tax liability for the 3 preceding and 15 succeeding taxable years.

Other energy tax incentives

Other energy tax incentives for business are tax-exempt financing, fuel production credits, and the excise tax exemption for alcohol fuels.

Industrial revenue bonds.—Tax-exempt financing is available for certain low-head hydroelectric facilities, solid waste disposal facilities, and certain property used to produce energy from renewable energy sources.

Production credit.—A credit of $3 for each barrel of oil equivalent, in BTUs, is available for fuel produced from a nonconventional source. Qualified fuels include oil produced from shale or tar sands; natural gas produced from geopressured brine, Devonian shale, coal seams, a tight formation or biomass; synthetic fuel produced from coal; qualifying processed wood fuel; and steam produced from agricultural waste. Except for processed wood and steam, these credits become available when the price of a barrel of oil falls below $29.50 (in 1979 dollars). In 1980, no credit was available. It is estimated that the credit will be approximately $1.50 a barrel in 1982 and $2.50 a barrel in 1983. A special (but similar) rule applies to natural gas. These credits apply to fuel produced before the year 2001 from facilities put in service or wells drilled before 1990.

Gasohol provisions.—Finally, present law provides an exemption from the 4-cents-per-gallon Federal excise tax on gasoline, diesel fuel, and other motor fuels for gasohol which is at least 10 percent alcohol. This amounts to a subsidy of 40 cents per gallon ($16.80 per barrel) for alcohol producers. If the tax exemption for gasohol does not apply, a tax credit is allowed. The credit is 40 cents per gallon for alcohol of at least 190 proof, and 30 cents per gallon for alcohol between 150 and 190 proof. There is a tariff on alcohol imported for use as fuel, which is designed to offset part of the benefit importers would receive from the gasohol tax incentives.

Administration Proposal

The Administration proposal would repeal all of the business energy tax credits that are not already scheduled to expire on December 31, 1982. The proposal would repeal the special provisions enacted in 1980 that allow State and local governments to issue tax-exempt bonds to finance low-head hydroelectric facilities and facilities that produce steam or alcohol from solid waste, and for certain State programs for energy conservation. The proposal would repeal the fuel production credit, the exemption of gasohol from the Federal excise tax on gasoline, and the alcohol fuel tax credit. In addition, the proposal would repeal the tariff imposed on imported alcohol fuel.

In general, the repeal of the business energy credits would be effective on January 1, 1983. However, taxpayers with binding contracts to acquire or construct energy property as of February 26, 1982, would continue to qualify for the present law energy credits for that property. For self-constructed property and for progress expenditure property (i.e., property with more than a 2-year construction period), the credits would apply for 1982 expenditures even though the property was not placed in service until after 1982. For property that qualifies under an affirmative commitment rule, like that in present law the credits would be extended through December 31, 1985.

The repeal of the other energy tax incentives also would be effective, in general, on January 1, 1983. However, alcohol fuel producers would be eligible for a production credit of 40 and 30 cents per gallon until December 31, 1985, for production from capacity either in place, or for which a binding purchase or construction contract has been signed, by February 26, 1982. After December 31, 1985, the credit for these facilities will phase out by 10 cents per gallon per year.

3. Limitations on Tax-Exempt Bonds for Private Activities

Present Law

Interest on State and local government obligations generally is exempt from Federal income tax. However, subject to certain exceptions, interest on State and local issues of industrial development bonds is taxable. An obligation constitutes an industrial development bond if (1) all or a major portion of the proceeds of the issue are to be used in any trade or business of a person other than a governmental unit or tax-exempt organization[1] and (2) payment of principal or interest is secured by an interest in, or derived from payments with respect to, property or borrowed money used in a trade or business.

Present law provides an exception which exempts interest on industrial development bonds that are issued to finance certain exempt activities. In general, exempt activities for this purpose include: (1) certain projects for residential rental property, (2) sports facilities, (3) convention or trade show facilities, (4) airports, docks, wharves, mass commuting facilities, parking facilities, and directly related storage or training facilities, (5) sewage or solid waste disposal facilities and facilities for the local furnishing of electricity or gas, (6) air or water pollution control facilities, (7) certain facilities for the furnishing of water, (8) qualified hydroelectric generating facilities, and (9) qualified mass commuting vehicles. In addition, the interest on certain obligations issued for the purpose of acquiring or developing land as the site for an industrial park is exempt from taxation.

Present law also provides an exception for certain "small issues" to the general rule of taxability of interest paid on industrial development bonds. This exception applies to issues of $1 million or less if the proceeds are used for the acquisition, construction, or improvement of land or depreciable property.

At the election of the issuer, the $1 million limitation may be increased to $10 million. If this election is made, the exception is restricted to projects where the aggregate amount of outstanding exempt small issues and capital expenditures (financed otherwise than out of the proceeds of an exempt small issue) made over a six-year period[2] does not exceed $10 million. Both the $1 million and $10 million limitations are determined by aggregating the face amount of all outstanding related issues, plus, in the case of the $10 million limitation, certain capital expenditures for all facilities used by the same or related principal users which are located within the same county or same incorporated municipality.

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[1] For example, interest on an obligation the proceeds of which are to be used in the trade or business which is not an unrelated trade or business, of a charitable organization, is exempt from tax.

[2] The relevant six-year period is the period beginning three years before the date of issue and ending three years after that date.

Present law specifically excludes from gross income interest on qualified scholarship funding bonds. These generally are obligations of nonprofit corporations organized at the request of a State or political subdivision of a State for the sole purpose of acquiring student loan notes incurred under the Higher Education Act of 1965.

Interest on arbitrage bonds generally is not exempt from tax. In general, an arbitrage bond is an obligation which is issued as part of an issue all or a major portion of the proceeds of which can be reasonably expected to be used (directly or indirectly) (1) to acquire securities or obligations that may reasonably be expected, at the time of issue, to produce a materially higher yield than that on the bond issue, or (2) to replace funds that were used directly or indirectly to acquire such securities or obligations. However, present law generally exempts from this arbitrage limitation those bond proceeds which are invested at materially higher yields, during a temporary construction period or that become part of reserve funds.

For purposes of the arbitrage limitation, the term "yield" refers to that yield which, when used in computing the present worth of all payments of principal and interest to be paid on the obligation, produces an amount equal to the purchase price. Under Treasury Regulations, administrative costs may not be taken into account in determining either the yield or the purchase price (Treas. reg. sec. 1.103-13(d)). However, the portion of the regulations that defines "purchase price" to mean initial offering price to the public and the part which excludes administrative expense in computing purchase price were held invalid in a recent Tax Court case (*State of Washington* v. *Commissioner,* 77 T.C. No. 48 (1981)).

Administration Proposal

Overview

The Administration proposal would (1) provide new restrictions on the issuance of tax-exempt bonds for private purposes, (2) extend the arbitrage limitations to temporary construction period investments and reserve fund investments, (3) reduce the benefit from tax-exempt bonds by requiring an election between tax exempt financing and the accelerated cost recovery system, and (4) limit the use of small-issue bonds to small-businesses.

Additional restrictions on private purpose bonds

The Administration proposal would impose several new requirements on the issuance of tax-exempt bonds for private purposes. Private purpose tax-exempt bonds subject to these requirements would include industrial development bonds issued to finance exempt activities or industrial parks, small-issue industrial development bonds, qualified scholarship funding bonds, and bonds issued for use in a trade or business by charitable organizations. Mortgage subsidy bonds issued before January 1, 1984, would not be subject to these requirements.

The following new requirements would be imposed with respect to the issuance of tax-exempt bonds for private purposes:

(1) Bond issues would have to be approved by the highest elected official or legislative body of the governmental unit by, or on whose behalf, the bonds are issued and in which the project financed by the bonds is to be located (or, in the case of qualified scholarship funding bonds, in which the eligible sellers of student loan notes are located). Alternatively, the public approval requirement could be met by a voter referendum. Prior to approval of a bond issue, a public hearing would be held. Furthermore, notice to the public would be required to be given prior to the hearing and promptly after approval of the bond issue.

(2) With respect to bonds issued after December 31, 1985, the governmental unit issuing the bonds would have to make a financial contribution or commitment to the project being financed with the bond proceeds. A contribution to the project would be required to have a present value equal to one percent of the face amount of the bond. The contribution could take the form of a cash payment, tax credit or abatement, provision of additional services, or payment of the bond issuance expenses. Alternatively, this requirement would be satisfied if the bonds were general obligation bonds of the State or local government, or if the State or local government assumed responsibility as the primary insurer or guarantor of the bonds.

(3) Bonds would be required to be in registered form and the issuance of obligations would be reported by the local government to the Internal Revenue Service.

Arbitrage limitations

The Administration proposal would eliminate the exception from classification as an arbitrage bond for reserve funds and funds held for a temporary construction period. Moreover, bond issuance costs would not be taken into account in determining the bond yield for purposes of the arbitrage limitation.

Election to use tax-exempt financing or ACRS

The costs of depreciable assets financed with any industrial development bonds could be recovered only under the straight-line depreciation method over the extended recovery periods used for earnings and profits computation purposes. The recovery periods would be as follows:

STRAIGHT-LINE RECOVERY PERIODS IF IDB-FINANCED

	Years
ACRS classifications:	
3-year property	5
5-year property	12
10-year property	25
15-year property	35
15-year public utility property	35

In the case of depreciable assets that are not completely financed with industrial development bonds, the slower depreciation would apply only to the portion financed with tax-exempt debt.

Restriction of small issue bonds to small businesses

The use of small-issue industrial development bonds would be restricted to small businesses. A small business would be a business with capital expenditures of less than $20 million during the period beginning three years before, and ending three years after, the issuance of the bonds.[3] Furthermore, bonds would not qualify under the small-issue exception if the business would have more than $10 million of industrial development bonds outstanding immediately after the sale of the bonds (excluding any previously issued bonds redeemed with the proceeds of the bonds in question). The $1 million and $10 million limitations of present law would continue to apply; however, bonds would not be disqualified solely because they are sold as part of a composite issue.[4]

Effective Dates

The proposals generally would apply to private purpose bonds, including refunding issues, issued after December 31, 1982. The provision requiring governmental units to make a financial contribution or commitment would apply to bonds issued after December 31, 1985. The proposals would not apply to mortgage subsidy bonds.

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[3] This $20 million limitation would operate in a manner somewhat similar to the $10 million limitation of present law. However, the $20 million limitation would apply to all capital expenditures regardless of where incurred, instead of capital expenditures within a single county or municipality under the $10 million limitation.

[4] Under Rev. Rul. 81-216, multiple lots of bonds at $1 million each are treated as a single large issue not qualifying under the small-issue exception if (1) the obligations will be sold at substantially the same time, (2) the obligations will be sold under a common plan of marketing, (3) the obligations will be sold at substantially the same rate of interest, and (4) a common or pooled security will be either used or available to pay debt service on the obligations. These requirements also are contained in proposed Treas. Reg. sec. 1.103-7, published in the Federal Register on Oct. 8, 1981.

4. Modified Coinsurance

Present Law

Overview

Although the income of a life insurance company is taxed at the usual corporate tax rates, its taxable income is computed under special provisions which may allow the company to reduce its tax liability if certain income items are characterized as underwriting income rather than investment income. Because of these provisions, life insurance companies have used certain kinds of reinsurance arrangements to recharacterize investment income as underwriting income.

A life insurance company has two primary sources of income—investment income, which is income from all assets, including income from any trade or business other than its insurance business, and underwriting income, which includes premiums and other income derived from the business of insurance. With respect to investment income, a life insurance company is taxed only on that portion of its investment yield (taxable investment income) not required to meet policy and other contract liabilities. Its overall gain (or loss) from operations is, generally, the sum of taxable investment income and underwriting income, less business expenses, policyholder dividends and certain other amounts. (By distributing policyholder dividends, a life insurance company shares favorable investment or underwriting experience with its policyholders. With limits, these dividends are deductible.) The special provisions for computing a life insurance company's taxable income require a comparison of its taxable investment income and its gain from operations. The result of the application of these provisions is that most life insurance companies can be classified as being in one of three tax phases.[1]

Phase I Company.—A Phase I company has a gain from operations that is less than its taxable investment income by $250,000 because it has reached the limit for deduction of policyholder dividends and certain other amounts. A life insurance company that would typically be in this phase is an established mutual company (owned by its policyholders), with substantial gains from its insurance business (i.e., underwriting gains). Such a company's gain from operations, before any policyholder dividend distributions, would exceed its taxable investment income. This company can use the deduction for policyholder dividends to reduce gain from operations, but not below an amount equal to taxable investment income, less $250,000. Thus, a Phase I company's taxable income is its taxable investment income, less $250,000.

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[1] The tax phases result from the application of the statutory formula for computing taxable income (sec. 802(b)). The taxable income of a life insurance company is generally the sum of (1) the lesser of its taxable investment income or its gain from operations, and (2) one-half of any excess of gain from operations over taxable investment income. In a stock company, the other half of the excess of gain from operations over taxable income is credited to a policyholder surplus account and is subject to tax deferral until it is distributed to shareholders of the company. Thus, taxable income of a stock company could also include shareholder distributions of previously tax-deferred income though such distributions are unusual.

Phase II (Positive) Company.—A Phase II (Positive) company has a gain from operations in excess of its taxable investment income. A typical life insurance company taxed under this phase would be an established stock company (owned by shareholders), which (unlike its mutual counterpart) has no state-law requirement to share favorable investment and underwriting experience with its policyholders. (A stock company will generally want to distribute excess funds to shareholders.) Under the Code, a Phase II (Positive) company's taxable income is generally the sum of its taxable investment income and one-half of the excess of its gain from operations over taxable investment income. Because a company's gain from operations is roughly the sum of its taxable investment income and its underwriting gain, a Phase II (Positive) company is taxed currently on one-half of its underwriting gain while the other half becomes part of a tax-deferred account (see footnote 1).

Phase II (Negative) Company.—A Phase II (Negative) company has a gain from operations that is less than its taxable investment income by more than $250,000 because of underwriting losses. Typically, a Phase II (Negative) company is a new or growing stock life insurance company that has underwriting losses from its insurance business because start-up costs associated with new insurance business are high in proportion to its total insurance business. In such a case, taxable investment income is reduced by the expenses of operating the company because the underwriting income alone is not sufficient to cover the costs of the insurance business. A Phase II (Negative) company's taxable income is its entire gain from operations.[2]

Coinsurance and modified coinsurance

Conventional coinsurance and modified coinsurance are two forms of indemnity reinsurance. Indemnity reinsurance is an arrangement between insurance companies in which Company A (the reinsured) transfers all or part of an insurance risk to Company B (the reinsurer), but remains solely liable to the policyholder. Under both forms of coinsurance, Company B usually assumes a share of the other contract liabilities (e.g., liabilities for cash surrender value and policyholder dividends) in proportion to the amount of insurance risk assumed. Thus, for tax purposes, Company B is generally treated as if it issued the original insurance policy to the extent of the risk it assumes under a coinsurance arrangement.

In exchange for its coinsurance assumption of the risk, Company B generally is entitled to a percentage of the premiums paid by the policyholders and of the investment income from assets associated with the reserve required for the assumed risk. Under conventional coinsurance arrangements, assets are actually transferred by Company A to Company B. Under modified coinsurance, the assets are treated on the records of each company as if transferred, but no actual transfer occurs. The amounts of premium and investment income credited to Company B under a modified coinsurance arrangement may or may not be proportional to the amount of risk transferred.

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[2] In addition to the three tax phases discussed above, there is also a "Corridor Phase" company, which is taxed on its entire gain from operations that is less than taxable investment income by an amount less than $250,000, and a "Phase III" company, which has taxable income that includes shareholder distributions of previously tax-deferred amounts from the policyholder surplus account (see footnote 1).

A conventional coinsurance or modified coinsurance arrangement generally requires that Company B pay Company A experience refunds. These refunds are similar to traditional policyholder dividends because they generally reflect both underwriting experience and investment experience associated with the insurance risks assumed by Company B. However, experience refunds are not subject to the limitation on the deduction for policyholder dividends. By treating these experience refunds solely as adjustments to underwriting income for both companies, life insurance companies have used coinsurance arrangements to recharacterize a portion of investment income as underwriting income.[3] Company A (either a Phase I or a Phase II (Positive) company) reports reduced taxable income because its taxable investment income is reduced when investment income is credited to Company B. When Company A receives an experience refund from Company B its underwriting income is increased. However, if Company A is a Phase I company, the increase in underwriting income is offset by an increased deduction claimed for policyholder dividends, and if Company A is a Phase II (Positive) company, only half of the increased underwriting income is taxed currently.[4] In either situation, Company A's reported taxable income is decreased. The decrease need not be matched by a corresponding increase in Company B's reported taxable income.[5]

Example.—Assume that Company A is a Phase I company that pays policyholder dividends. Although these dividends can offset all gain from operations in excess of taxable investment income, no more than $250,000 of the dividends can offset taxable investment income. However, Company A may be able to reduce its reported taxable investment income further under a coinsurance arrangement.

Under the coinsurance arrangement, Company A's reported taxable investment income is reduced because (along with premiums) investment income associated with the reinsured contracts is shifted from Company A (the reinsured) to Company B (the reinsurer). Company B reports both increased underwriting income and increased investment income to reflect assets transferred or amounts allocated to it under the arrangement. Each year Company B shares both favorable underwriting experience and favorable investment experience on the reinsured contracts by paying Company A experience refunds.

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[3] The Internal Revenue Service suspended the issuance of ruling and determination letters relating to modified coinsurance arrangements on September 25, 1980, pending completion of a study (IRS News Release IR-80-98).

[4] Because taxation of one-half of the increased underwriting income is deferred for such a stock company, the overall effect for the current year is similar to taxing the increased underwriting income at one-half the regular corporate rate.

[5] Company B is often a Phase II (Negative) company which will have increased underwriting losses (attributuble to the experience refunds paid) to offset increased taxable investment income.

When Company A receives experience refunds, its reported underwriting income is increased. Any increased underwriting gain is offset by an increased deduction claimed by Company A for policyholder dividends that would not otherwise be deductible because of the $250,000 limitation. The coinsurance arrangement has the effect of reducing Company A's reported taxable income.[6]

Administration Proposal

Under the Administration proposal, the provision of the Code that treats modified coinsurance arrangements as conventional coinsurance arrangements would be repealed. In addition, the proposal would clarify the treatment of experience refunds by providing for an allocation between investment and underwriting income. Also, the tax treatment of modified coinsurance arrangements would be revised to prevent disproportionate allocation of investment and underwriting income between the reinsured and the reinsurer.[7]

These provisions would generally apply to all reinsurance arrangements entered into after December 31, 1981. The provisions relating to experience refunds and disproportionate allocations would apply after December 31, 1981, to all modified coinsurance and other reinsurance arrangements.

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[6] If Company A is a Phase II (Positive) company, the transaction results in increasing the reported excess of its gain from operations over its taxable investment income but only one-half of that excess is includible in taxable income currently.

[7] The Administration also proposes to address the problem and change the treatment of experience refunds and of disproportionate allocation of income under modified coinsurance arrangements through amendments to the Treasury regulations.

5. Construction Period Interest and Taxes

Present Law

Under Section 189, individuals, personal holding companies, and subchapter S corporations are required to capitalize interest and real property taxes attributable to the construction period of real property to be used in a trade or business or held for investment. There is an exception to this rule for low-income housing. The capitalized interest and taxes are amortized (i.e., deducted in equal portions) over certain periods, generally 10 years. The interest that must be capitalized is interest which is attributable to the construction period on any debt incurred or continued for the purpose of acquiring, constructing, or carrying real property other than low income housing. The construction period is defined as the period beginning on the date construction of the building or improvement begins and ending on the date the property is ready to be placed in service or is ready to be held for sale.

The amortization of capitalized interest and taxes begins in the year the interest or taxes was paid or accrued. However, the amortization of capitalized interest and taxes is then suspended until the year the building or improvement is ready to be placed in service or to be sold, and amortization resumes at that time.

Corporations other than personal holding companies and subchapter S corporations are not subject to the capitalization requirement of section 189. For these corporations, amounts paid or accrued for interest and real property taxes are allowed as deductions for the year in which paid or accrued. Certain prepaid interest, however, must be capitalized and deducted in the years to which properly applicable. In addition, under section 266 of the Internal Revenue Code, taxpayers may capitalize certain taxes and interest attributable to both real and personal property and include the capitalized items in the basis of the property.

Administration Proposal

Section 189 would be amended to require corporations (other than personal holding companies and subchapter S corporations) to capitalize and amortize interest and taxes incurred in the construction of nonresidential real property. As under present law section 189, individuals, personal holding companies and subchapter S corporations would continue to be required to capitalize construction period interest and taxes for the construction of all real property other than low-income housing. As under present law, the amortization period will be ten years for taxpayers made subject to the provision. One-tenth of the capitalized interest and taxes will be deductible for the year in which they were paid or accrued. The other nine-tenths will be deductible over a nine-year period beginning with the year in which the building is ready to be placed in service or is ready for sale.

The amendments to section 189 would apply to interest and taxes paid or accrued in taxable years beginning after December 31, 1982.

6. Corporate Minimum Tax

Present Law

Under present law, corporations must pay a minimum tax on certain tax preferences. This tax is in addition to the corporation's regular tax. The amount of the minimum tax is 15 percent of the corporation's tax preferences in excess of the greater of the regular income tax paid or $10,000.

The tax preference items included in this base of the minimum tax for corporations are:

(1) Accelerated depreciation on real property in excess of straight-line depreciation over the useful life or recovery period (in the case of property eligible for ACRS, 15 years);

(2) Amortization of certified pollution control facilities (the excess of 60-month amortization over depreciation otherwise allowable);

(3) In the case of certain financial institutions, the excess of the bad debt deductions over the amount of that deduction computed on the basis of actual experience;

(4) Percentage depletion in excess of the adjusted basis of the property;

(5) 18/46 of the corporation's net capital gain;[1] and

(6) Amortization of child care facilities (the excess of 60-month amortization over depreciation otherwise allowable.).[2]

In computing the amount of the regular tax deductions from the corporation's minimum tax base, the corporation's regular tax liability is reduced by nonrefundable credits other than the credits relating to ESOPs. Credits (other than refundable credits) are not allowed against the corporate minimum tax.

In the case of individuals, a similar add-on minimum tax applies under present law except that the items of tax preferences also include (1) accelerated depreciation on personal property subject to a lease, and (2) intangible drilling costs on oil and gas wells in excess of the amount amortizable with respect to the cost, and in excess of net income from oil and gas production. Capital gains is not an item subject to the add-on tax for individuals. In the case of an individual, only one-half the regular taxes are allowed in computing deductions from the minimum tax base.

Individuals are also subject to an alternative minimum tax which is payable to the extent it exceeds the individual's regular tax paid.[3] The alternative minimum tax is generally based on the taxpayer's taxable income increased by (1) the deduction for long-term capital gains and (2) the amount of the taxpayer's adjusted itemized deductions. The tax rate is 10 percent of the alternative minimum taxable income from $20,000 to $60,000 and 20 percent of the amount in excess of $60,000. Tax credits, other than the foreign tax credit, are generally allowable against this tax only if attributable to an active trade or business and only to the extent the tax is not attributable to net capital gains or to adjusted itemized deductions. Any credit disallowed by this rule increases the amount allowed as a credit carryover.

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[1] Special rules applicable to capital gains from timber have the effect of reducing the tax rate to 10 percent, increasing the exemption of $30,000, and allowing a regular tax carryover.

[2] The rapid amortization for child care facilities terminated for expenditures made after 1981.

[3] The comparison is made after the regular tax liability is reduced by all nonrefundable credits.

The foreign tax credit is allowed in full against the alternative minimum tax. In general, the regular foreign tax credit rules apply, but the foreign tax credit limitation is computed separately with respect to the alternative minimum tax. Thus, the amount of foreign tax that may be credited against the alternative tax is limited to the same proportion of the gross alternative tax as the taxpayer's alternative minimum taxable income from sources without the United States bears to his entire alternative minimum taxable income. The taxpayer is then required to pay an amount equal to the greater of the after-credit regular tax or the after-credit alternative minimum tax. A special rule is also provided for computing the amount of unused foreign taxes that may be carried back or carried forward.

Generally, an individual's preference for adjusted itemized deductions is the amount of a taxpayer's itemized deductions (other than the deductions for medical expenses, casualty losses, and state, local and foreign taxes) in excess of 60 percent of adjusted gross income (reduced by the itemized deductions excluded above). In the case of estates and trusts, certain additional adjustments are made.

No estimated tax payments of the minimum taxes are required.

Administration Proposal

Overview

The proposal would repeal the present law 15-percent add-on minimum tax for corporations and establish a 15-percent alternative minimum tax. Under the proposal, corporations would pay the alternative minimum tax only when it exceeds the regular income tax.[4] The proposal would not amend the present law minimum tax provisions for individuals.

The new alternative minimum tax would apply to domestic corporations (other than Subchapter S corporations and personal holding companies[5]) and foreign corporations engaged in a trade or business in the United States. In general, the tax base would be a corporation's regular taxable income, increased by certain tax preference items for the year. Net operating loss deductions would not be allowed in computing the minimum tax base. The tax base then would be reduced by a $50,000 exemption and taxed at a 15-percent rate.

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[4] See footnote 3.

[5] The preferences of Subchapter 5 corporations would continue to flow thru to their individual shareholders. Personal holding companies would continue to be subject to the add-on minimum tax.

The proposal would allow a foreign tax credit against the alternative minimum tax. No other credits would be allowed to offset the tax. The excess of the alternative minimum tax over the regular tax determined for any year would be carried over as a credit to be applied against the regular tax in future years.

Preferences

Existing tax preference items

Five preference items that would be added to taxable income in computing the alternative minimum tax base under the proposal would be identical to tax preferences subject to the present law corporate minimum tax. The capital gains preference under the present corporate minimum tax would not have to be added separately to the tax base since the alternative minimum tax base automatically would include it as part of regular taxable income. The five preference items from present law are as follows:

(1) ***Accelerated depreciation on real property.***—This item would include accelerated depreciation on low-income rental housing, 15-year recovery property (i.e., property eligible for the new recovery rules under ACRS), and other real property that is not recovery property. The amount of the preference would be the excess of depreciation allowable for the year over depreciation allowable using the straight-line method over 15 years.

(2) ***Amortization of certified pollution control facilities.***—This item would include amortization of certified pollution control facilities in excess of straight-line depreciation.

(3) ***Amortization of child care facilities.***—This item would include amortization of child care facilities in excess of straight-line depreciation.

(4) ***Reserves for bad debts of financial institutions.***—This item would include the excess of the bad debt deduction for certain financial institutions over the amount of that deduction computed on the basis of actual experience.

(5) ***Excess percentage depletion.***—This item would include percentage depletion in excess of the adjusted basis of the property at year end (without regard to any deduction for depletion for the year).

New tax preference items

In addition to existing minimum tax preferences, the following items would be included as tax preferences in the alternative minimum tax base:

(1) ***Intangible drilling costs.***—This item would include the deduction for intangible drilling and development costs of oil, gas, and geothermal wells (other than dry holes) in excess of the amount allowable had the costs been capitalized and amortized on the straight line basis over 10 years. There would be no offset for the net income from the properties for the year, as there is under the minimum tax for individuals.

(2) ***Mining exploration and development costs.***—This item would include deductions for mining exploration and development costs in excess of the amortization that would have been allowable on the straight line basis over 10 years.

(3) ***Lessors' safe harbor leasing benefits.***—The alternative minimum tax would include benefits attributable to safe harbor leases under the accelerated cost recovery system. The amount of the preference for each lessor (i.e., buyer of tax benefits) would be the excess of (1) the current year's ACRS deduction minus the excess of the rental income over the interest deductions with respect to the lease for the taxable year (i.e., the net deductions received by the lessor as a result of the safe-harbor sale-leaseback transaction) over (2) the initial amount of cash paid by the lessor to the lessee amortized over the lease term. Leases entered into before February 26, 1982, would be exempted.

(4) ***Deductions for debt to carry tax-exempt securities.***—This item would include interest on indebtedness to purchase or carry tax-exempt securities, to the extent this interest is deducted under current law. In determining the amount of the interest deduction to be added to the minimum tax base, the corporation's total interest deductions will be allocated pro rata across its total investment portfolio.

(5) ***Deferred DISC income.***—This item would include a corporate shareholder's pro rata share of DISC income for the year that is not taxed currently.

(6) ***Deferred shipping income.***—This item would include amounts deposited in construction reserve funds or capital construction funds under the Merchant Marine Act.

(7) ***Amortization of motor carrier operating rights.***—This item would include all deductions claimed under the five-year amortization provisions added by the Economic Recovery Tax Act of 1981 for motor carrier operating authorities which diminished in value as a result of the deregulation of motor carriers on July 1, 1980.

(8) ***Excess OID interest.***—This item would include interest deductible on original issue discount (OID) bonds in excess of the amount that would be deductible were the original issue discount amortized according to a method which yields the same pattern of deductions that would result from borrowing the same amount of money with par-value bonds having the same yield to maturity.[6]

(9) ***Deductions for costs incurred for long-term contracts.***—This item would include current deductions of certain indirect costs incurred for long-term contracts entered into on or before February 26, 1982. The amount of the preference would be the excess of those deductions over the deductions that would have been allowable if those costs were capitalized and deducted under the proposed progress payment method of accounting for long-term contracts. The indirect costs subject to this rule are those costs that would have to be allocated to long-term contracts subject to the proposed progress payment method of accounting were the contract entered into after February 26, 1982. (See section on "Completed Contract Method of Accounting" above.)

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[6] Under present law, when a taxpayer issues a bond for an amount less than the amount for which the bond will be redeemed at maturity, the difference (the original issue discount) may be deducted as interest ratably over the life of the bond. This linear amortization provides a more accelerated stream of interest deductions than would borrowing the same amount of money through par-value bonds with the same yield to maturity.

Net operating losses

Net operating loss (NOL) carryovers and carrybacks would not be allowable as offsets against the alternative minimum tax base. The amount of any NOL carryover or carryback allowable in computing the regular tax would be treated as absorbed, even for years the corporation pays the alternative minimum tax.

Foreign tax credit

Under the proposal, a taxpayer would be permitted a foreign tax credit against its alternative minimum tax. The credit would be computed in a manner similar to the way in which the present law foreign tax credit against the alternative minimum tax for individuals is computed. In general, the amount of foreign income taxes paid or accrued during the taxable year that could offset the minimum tax could not exceed the portion of the tax attributable to foreign source income. The present limitations for foreign oil income (sec. 907) would apply. Foreign taxes in excess of the current year's limitation could not be carried over to be used either against the minimum tax or the regular corporate tax in other years.

Other regular tax credits

No credits (other than the foreign tax credits) would be allowed as an offset against the alternative minimum tax. The amount of any unused credit carryover or carryback allowable in computing the regular tax would be treated as absorbed, even for years the corporation pays the alternative minimum tax.

Minimum tax credit

To prevent loss of tax benefits from credits or NOL carryovers, the proposal would establish a minimum tax credit. The minimum tax credit would be the excess of the alternative minimum tax liability for any year over the regular tax liability computed for that year. The credit would be applied as a carryover against the regular tax in subsequent years. The minimum tax credit would be applied after application of all other credits against the regular tax. The carryover period would be 15 years.

Estimated tax requirement

Estimated tax payments would be required to take into account any estimated alternative minimum tax liability.

Effective date

The new minimum tax provisions for corporations would apply for taxable years beginning after December 31, 1982.

7. Enterprise Zones

Present Law

Under present law, no general tax incentives are provided for the redevelopment of depressed areas. However, the section relating to mortgage subsidy bonds defines targeted areas for the purpose of promoting housing development within these areas. Within such areas, defined on the basis of the income of area residents or the general economic condition of the area, rules for the issuance of mortgage subsidy bonds are less restrictive than the generally applicable rules.

Administration Proposal

The Administration proposes that beginning January 1, 1984, up to 25 small urban areas per year (not to exceed 75 in total) may be designated as "enterprise zones." Special tax incentives and relief from regulation, designed to increase investment and employment, would be provided businesses and individuals locating in these areas. The Administration intends to present the details of is proposal at a later date.

B. Tax Collection and Enforcement Provisions

1. Withholding on Interest and Dividends

Present Law

Present law requires information reporting for payments of interest and dividends but does not require withholding on such payments except in the case of payments to certain foreign persons. A payor making a payment of interest or dividends subject to information reporting, or a corporation having outstanding registered evidences of indebtedness as to which original issue discount accrues during the calendar year, must generally file both a return with the Internal Revenue Service and a statement with the recipient. The dividend reporting requirements generally do not apply to distributions or payments made by or to foreign corporations, nonresident aliens, or partnerships not engaged in trade or business in the United States and composed in whole or in part of nonresident aliens. In general, interest paid by individuals (for example, interest paid by an individual on home mortgage payments), and amounts paid on obligations of a State, or local government, or U.S. possession, are not subject to the information reporting requirement. There is, currently, no reporting requirement with respect to interest payable on bearer obligations unless received and paid over by nominees. Likewise, payments of interest by foreign corporations, nonresident aliens, or partnerships composed of nonresident aliens (in whole or in part) are not subject to the information reporting requirements if they are not engaged in a trade or business in the United States.

The penalty for failure to file information returns or statements is $10 per failure unless such failure is due to reasonable cause. The maximum penalty for aggregate failures to file either returns or statements in any one calendar year is $25,000.

Administration Proposal

Overview

The Administration proposes withholding on dividend and interest payments at a flat 5-percent rate, beginning on January 1, 1983. Generally, the proposal would require withholding on payments by commercial and financial institutions and similar organizations to individuals, partnerships, and certain trusts in generally the same manner that tax is withheld on wages. Payments to corporations, including regulated investment companies (e.g., mutual funds), would not be subject to withholding; thus, intercorporate dividends and most commercial or financial transactions would be unaffected. Interest payments made by individuals, generally, would not be subject to withholding.

Withholding on dividends and interest

The Administration proposal would require reporting and withholding on dividend and interest payments aggregating $10 or more in any calendar year, subject to the discretion of the Secretary to require withholding on amounts less than $10. Under the proposal, withholding would be required on all payments and dividends to non-exempt persons for which information reporting to the Internal Revenue Service and the recipient is required under present law. In addition, the reporting and withholding requirements would be expanded to encompass, (1) any payments of taxable interest or accruals of original issue discount on all debt obligations of the sort generally offered to the public, and (2) any taxable dividend distribution by a corporation to a non-corporate recipient or any payment by a stockbroker to such a recipient as a substitute for a dividend. Dividend or interest payments to nominees and corporations, would not be subject to withholding. These entities would, however, be required to withhold from further dividend or interest payments made to non-exempt individual shareholders or principles. Obligations subject to the interest and original issues discount reporting and withholding requirements would include obligations of the United States, unregistered debt instruments issued by corporations, negotiable certificates of deposit, deposit accounts, and interest bearing checking accounts. Dividends subject to withholding would include all distributions out of current or accumulating earnings and profits, not including dividends reinvested in dividend reinvestment plans.

Recipients of taxable interest, original issue discount, or dividends would be required to attach the statements they will receive from the payors, showing the amount of the taxable item and the amount of tax withheld, to their income tax returns, just as is currently required for W-2's. Individuals making estimated tax payments could reduce their estimated tax payments by an amount equal to the withholding credit to which they would be entitled as of the payment date. Because of liberalizations on the wage withholding rules enacted in the Economic Recovery Tax Act of 1981, individual wage earners would be able to adjust their withholding allowances to reflect some or all of the amount of taxes which would be withheld from their dividend and interest income.

Time of withholding

Under the Administration proposal, withholding generally would occur when the taxable interest or dividend would be includible in the gross income of a cash basis taxpayer. In the case of cash payments, withholding would occur when the payment is made. In the case of constructive payments, such as may occur in the case of regulated investment companies, withholding would occur at the time of constructive receipt. Withholding on short-term corporate obligations would be required at interest payment dates, or if there were no stated interest, on maturity. If there were both interest payment and accrued original issue discount, withholding would need to cover both. Withholding on short-term discount obligations without stated interest, such as Treasury bills and bankers' acceptances would occur at maturity. Generally, interest on long-term obligations including bearer obligations would be subject to withholding as interest payments are made, or if the obligation were a discount obligation with no stated interest, at least once annually. If there were no stated interest, of if stated interest payments were insufficient to allow withholding both with respect to stated interest and original issue discount, the withholding agent would need to charge principle for the required withholding. In the case of Series E and EE United States Savings Bonds, withholding would occur upon redemption.

Special rules would be provided for payments of interest on accounts with depository institutions. Ordinarily, withholding would occur when an amount is posted to the account; however, an option would be provided for depository institutions to withhold from passbook, interest bearing checking accounts and similar accounts on an annual basis. The withholding would be accelerated if an account were to be closed and the account could not be reduced below the accrued withholding obligation with respect to the account.

Exemptions from withholding

The Administration proposal would exempt from the withholding requirements payments made to two classes of recipients. First, taxable dividend and interest payments made to corporate recipients would not be subject to withholding. These corporate recipients would, however, withhold from any further distributions of dividends or interest to non-exempt persons. The corporate exemption would include interest paid to a corporate trustee. However, the corporation, as trustee, would be obligated to immediately withhold 5 percent of the trust's interest and dividends receipts. The credit arising from the withholding would be allocable between the trust and its beneficiaries according to the amounts of interest and dividend income giving rise to the credit allocable to each (or all to the grantor in the case of a grantor's trust).

Secondly, the proposal would exempt from withholding payments made to certain persons who file exemption certificates with the payor. Persons eligible to file exemption certificates would include (1) individuals who had no Federal income tax liability in the preceding taxable year and who reasonably expect to have no Federal income tax liability for the current taxable year, and (2) individuals 65 years of age or older who had tax liabilities of not more than $500 ($1,000 for married couples filing jointly) for both their prior and current taxable years (the Administration estimates that over 70 percent of all elderly persons would be exempt from withholding), (3) organizations, including State and local governments, exempt from income taxation (such as those described in sec. 501(a)), (4) noncorporate dealers in securities required to register as broker-dealers, and (5) noncorporate nominees. Individuals would not be allowed partial exemptions from withholding to reflect the $100 or $200 dividend exclusion or 15 percent net interest exclusion (effective after 1984) provisions. No withholding would be required on interest paid on All-Savers certificates or tax-exempt bonds.

Under the proposal an exemption certificate filed with the payor would remain in effect until revoked by the payee.

The administration proposal would not affect reporting or withholding requirements currently in place for interest and dividend payments to foreign individuals and corporations.

2. Accelerated Corporate Income Tax Payments

Present Law

Under present law, any corporation subject to tax is required to make payments of estimated tax if it reasonably expects to have an estimated tax liability for the taxable year of $40 or more. The estimated tax is payable in up to four installments over the taxable year. In general, if the estimated tax payments for the taxable year are not at least 80 percent of the actual tax due, then a penalty is imposed as an addition to tax. This penalty equals the amount of interest which would accrue on the amount of the entire underpayment of estimated tax during the period of the underpayment. Generally, this addition to tax does not apply with respect to any installment if, on or before the date prescribed for such installment, the corporation pays the amount which would have been due on that date if the estimated tax were the lesser of:

(1) The corporation's prior year tax liability;

(2) the corporation's tax liability on prior year's income computed using tax rates for the current year; or

(3) 80 percent of the taxes which would have been due if the income which the corporation had already received during the current year had been computed on an annualized basis.

In 1982 and 1983, large corporations (those with taxable income of $1,000,000 or more during any of the three previous taxable years) otherwise qualifying for treatment under either of the first two safe harbors will not be subject to the addition to tax if their estimated tax payments for the taxable year are at least 65 percent (in 1982) or 75 percent (in 1983) of the tax shown on their returns for that taxable year. In 1984 and thereafter the first two safe harbor rules are not available to large corporations. In 1984 and thereafter, therefore, a large corporation must either pay at least 80 percent of the amount of tax shown on its return for the taxable year, or 80 percent of the taxes which would have been due if the income which the corporation had already received during the current year had been computed on an annualized basis.

As a general rule, under present law, a corporation's income tax return is due 2½ months after the end of the corporation's taxable year. The tax required to be shown on the return is due at that time. However, if the taxpayer so elects, the tax may be paid in two equal installments. The first installment is due on the due date of the return. The second is due three months later.

Administration Proposal

The Administration proposal would result in the accelerated collection of corporate income taxes by (1) increasing the amount of estimated tax payments necessary to avoid the addition to tax for underpayment of estimated tax from 80 percent to 90 percent of the tax shown on the return for the taxable year (with conforming changes being made to the third safe harbor provision), (2) requiring that all remaining tax owed be fully paid on the return due date, and (3) extending the phaseout of the availability of the first two safe harbor rules to large corporations (to reflect the increase in percentage of estimated taxes due to avoid penalty from 80 to 90 percent), by providing that only large corporations whose estimated tax payments are at least 80 percent for 1984 and 85 percent for 1985 of the amount shown as tax on their returns may avail themselves of the first two safe harbor rules.

3. Internal Revenue Service Staff Increases

Present Law

Public Law 97-92 (the third continuing resolution) enables the Internal Reveue Service to maintain an average of 85,363 positions during fiscal year 1982. Of this total number of positions, 14,556 are in the investigation and collection functions, 27,882 are in the examination functions, and 1,833 are in the appeals functions. The following table sets forth average employee levels in these three functions and in the entire IRS for fiscal year 1982 and the preceding three years:

	Number of positions			
	1979	1980	1981	1982
Function:				
Investigation and collection	11,753	12,802	13,185	14,556
Examination of deficient returns	27,747	28,370	27,402	27,882
Appeals	1,628	1,884	1,858	1,833
Total IRS employment	86,168	87,464	86,156	85,363

Administration Proposal

The Administration's budget request for fiscal year 1983 includes a net increase in Internal Revenue Service manpower of 3,310 average positions. Included in this request is a 5,225 increase in the number of employees committed to collection of delinquent taxes, determination of amounts of underreported income, and identification of improper deductions on tax returns. The additional employees to be distributed within the Internal Revenue Service in the following way:

Function:	New positions
Collection of delinquent accounts	3,000
Identification of nonfilers	1,000
Examination of deficient returns	1,000
Appeals	225
Total	5,225

4. Debt Collection Proposals

Present Law

Present law (the Internal Revenue Code and other Federal laws) contains several provisions governing the collection of debts owed to the Federal Government. These include the Privacy Act, the Federal Claims Collection Act of 1966, and Internal Revenue Code provisions relating to the disclosure of tax returns and return information and the interest rate on tax deficiencies.

The Privacy Act generally prevents a Federal agency from disclosing an individual's records without the individual's consent. Thus, delinquencies of debtors on their financial obligations to the Federal Government may not be referred to private debt collection agencies.

The Federal Claims Collection Act of 1966 deals in general with the collection of Federal debts. That Act, however, does not provide for the assessment of interest or penalties on debts owed to the Federal Government.

The Internal Revenue Code permits the Internal Revenue Service to disclose returns and return information to other governmental agencies, for the purpose of assisting them with debt collection, in several circumstances. For example, the IRS may disclose taxpayers' mailing addresses to officers and employees of Federal agencies, for their use in collecting Federal debts. However, this provision does not permit disclosure to agents of Federal agencies (*e.g.*, disclosure to private debt collection agencies). Moreover, there is no provision allowing the IRS to inform other Federal agencies whether applicants for Federal loans have any outstanding tax deficiencies.

Administration Proposal

The Administration has proposed a two-part debt collection effort, consisting of administrative and legislative initiatives.

The following administrative steps will be undertaken:

(1) Loan origination and servicing programs will be examined and made more effective; (2) agency collection officials will be better trained and held directly accountable for improved collection efforts; (3) the litigation process will be improved to allow for speedier and more effective action against debtors who have the ability to pay but refuse to do so; and (4) new tools and techniques will be utilized (for example, certain debt collection functions might be contracted out to the private sector).

In addition, the Administration has asked Congress for legislation, which contains both tax and non-tax provisions, designed to strengthen Federal debt collection. The tax-related provisions would: (1) require individuals who apply for Federal loans or assistance to furnish their social security numbers; (2) permit the IRS to disclose to another Federal agency whether a Federal loan applicant has any outstanding tax liability; and (3) permit the IRS to disclose taxpayer mailing addresses to agents (*e.g.*, private debt collectors), as well as to officers and employees, of other Federal agencies for purposes of collecting Federal debts.

The major non-tax provisions of the proposal would: (1) allow Federal agencies to refer credit information on delinquent debtors to credit bureaus; (2) require the payment of interest on all debts owned to the Federal Government; and (3) provide specific authority for Federal agencies to contract with private collection agencies for purposes of debt collection (other than collection of tax debts).

Effective Date

The legislative proposals would be effective upon enactment.

C. Excise Taxes

1. Airport and Airway Trust Fund Taxes

Present Law

Trust fund receipts

During the period July 1, 1970, through September 30, 1980, the Airport and Airway Trust Fund was financed by the receipts from several earmarked excise taxes. These taxes are listed in the table below in the column "prior law." The largest source of revenues was the 8-percent tax on air passenger tickets. The fuels tax was the major source of funds derived from general aviation.

Since October 1, 1980, when authorization for the trust fund expired, the tax on air passenger tickets decreased to the pre-trust fund rate of 5 percent, and the receipts have been deposited into the general fund of the Treasury. Receipts from the 4-cents-per-gallon tax on gasoline used in general aviation are deposited in the Highway Trust Fund, as are the receipts from taxes on tires and inner tubes used for aircraft.

The table which follows shows the excise taxes and tax rates that were in effect and deposited in the trust fund before October 1, 1980, and the tax rates currently in effect for the same excise taxes.

SCHEDULE OF AIRPORT AND AIRWAY TRUST FUND EXCISE TAXES UNDER PRIOR AND PRESENT LAW

Tax (and code section)	Prior law rate (July 1, 1970-Sept. 30, 1980)	Present law rate
Air passenger ticket (sec. 4261 (a), (b) and (d))[1]	8 percent	5 percent.
Air freight waybill tax (sec. 4271)	5 percent	0.
International departure tax (sec. 4261(c))	$3 per person	0.
Fuels tax for noncommercial (general) aviation (sec. 4041 (c))[2]	7 cents per gallon	4 cents per gallon on gasoline.[3]
Aircraft use tax (sec. 4491)[2]	([4])	0.
Aircraft tires tax (sec. 4071)	5 cents per pound	4.875 cents per pound.[5]
Aircraft tubes tax (sec. 4071)	10 cents per pound	10 cents per pound.

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[1] Air transportation between the United States and a foreign station which is not more than 225 miles from the nearest point in the continental United States, as well as between two such foreign stations, generally is subject to the 5-percent tax where payment for the travel is made in the United States. This tax does not apply to transportation between the United States and other foreign stations where payment is made outside the United States, nor does it apply to the U.S. portions of certain uninterrupted international air transportation (where the

layover does not exceed 6 hours). Also, the air passenger ticket tax does not apply to the portion of flights to or from or between Alaska and Hawaii which are not made over the United States (Code sec. 4262).

[2] The tax did not apply to aircraft owned by a tax-exempt museum operated exclusively for the procurement, care, and exhibition of World War II aircraft (defined in sec. 4041(h)).

[3] The 7 cents a gallon tax on jet fuel expired on October 1, 1980; the 4 cents a gallon tax presently applies only to noncommercial aviation gasoline.

[4] An annual tax of two parts: (1) a $25 annual tax per plane, plus (2) a weight tax of 3½ cents per pound for turbine-power (jet) aircraft and 2 cents per pound for nonturbine-powered aircraft for each pound in excess of 2,500 pounds of "maximum certificated takeoff weight." However, for the period July 1, 1980-September 30, 1980, the use tax was one-fourth the applicable annual rates.

[5] Reduced for nonhighway tires from 5 cents per pound on January 1, 1981.

Trust fund expenditures

Congress has approved expenditures from the trust fund through the fiscal year 1982. (The fiscal 1982 appropriation act for the Department of Transportation, P.L. 97-102, appropriated $1,628 million out of the trust fund.)

In fiscal year 1980 the trust fund paid for about 40 percent of total Federal spending on the airport and airway system.

Administration Proposal

Trust fund taxes

The Administration's proposal would reestablish the Airport and Airway Trust Fund taxes on July 1, 1982, and would finance the Trust Fund with the following schedule of excise taxes:

ADMINISTRATION'S PROPOSED AVIATION EXCISE TAXES

Tax	Tax rate
Air passenger ticket tax	8 percent.
Air freight waybill tax	5 percent.
International departure tax	$3 per person.
General aviation gasoline tax	12 to 20 cents per gallon.[1]
General aviation jet fuel tax	14 to 22 cents per gallon.[2]
Aircraft tire tax	4.875 cents per pound.
Aircraft inner tubes tax	10 cents per pound.

[1] 12 cents in 1982 and 1983, increasing 2 cents annually to 20 cents in 1987.

[2] 14 cents in 1982 and 1983, increasing 2 cents annually to 22 cents in 1987.

Trust fund expenditures

The Administration has stated that through 1987 the trust fund would finance 85 percent of the Federal Aviation Administration's costs; that is, all costs allocable to air carrier and general aviation.

The 1983 budget reflects the Administration's intent to seek higher budget authority for modernizing the National Airspace System if the proposed excise taxes are enacted. The Administration proposes that the trust fund finance airport grants, as well as costs allocable to users for development, acquisition, operation and maintenance of the airport and airway system.

The Administration has stated that its proposals would result in an uncommitted trust fund balance in the range of $.8 billion to $2.3 billion during fiscal years 1983-1987, compared to the $3.0 billion uncommitted balance at the end of fiscal year 1981.

2. Extension of Highway Trust Fund Taxes

Present Law

Receipts from specified excise taxes are transferred from the general fund of the Treasury to the Highway Trust Fund. These revenues are used for payment of contractual obligations incurred by the States in constructing, repairing and reconditioning Federal-aid highways and for meeting other authorized highway-related goals. Excise taxes designated for the Highway Trust Fund have been imposed on (1) the sale of gasoline, diesel fuel, special motor fuels and lubricating oils, (2) the sale of tires, inner tubes and tread rubber, (3) the sale of heavy trucks, trailers and truck parts, and (4) the use of certain heavy highway motor vehicles.

Current rates of tax are shown in the accompanying table. These rates apply until October 1, 1984. Beginning on October 1, 1984, generally lower rates of tax are scheduled to apply (as shown in the table), and amounts collected will no longer be transferred to the Highway Trust Fund. In addition, authority for expenditures from the Highway Trust Fund is scheduled to terminate at the end of fiscal year 1984.

Several exemptions from these taxes are provided in present law, generally relating to off-highway use of gasoline and other motor fuels. There is also an exemption for gasoline sold in a mixture with alcohol (described above in the discussion of business energy tax incentives).

The Surface Transportation Assistance Act of 1978 directed the Secretary of Transportation to make recommendations to Congress by January 15, 1982, concerning any alternative tax structures which may more nearly achieve an equitable distribution of the tax burden among classes of persons and vehicles using Federal-aid highways. (This report has not yet been submitted to the Congress.) This 1978 Act also directed the Secretary of the Treasury to make recommendations to Congress by April 15, 1982, concerning (a) administrative improvements in excise taxation or (b) a new system of raising revenues to fund the Highway Trust Fund which would enhance tax administration, equity and compliance.

CURRENT HIGHWAY USER EXCISE TAXES AND SCHEDULED RATES OF TAX UNDER PRESENT LAW

Tax	Rate of tax, present law	
	Before Oct. 1, 1984	After Sept. 30, 1984
a. Petroleum products:		
1. Gasoline	4 cents per gallon	1.5 cents per gallon.
2. Diesel fuel	4 cents per gallon	1.5 cents per gallon.
3. Special motor fuel	4 cents per gallon	1.5 cents per gallon.
4. Lubricating oil	6 cents per gallon	6 cents per gallon.
b. Tires, tubes and tread rubber:		
1. Tires for highway vehicles	9.75 cents per pound	4.875 cents per pound.
2. Laminated tires	1 cent per pound	1 cent per pound.
3. Other tires	4.875 cents per pound.	4.875 cents per pound.
4. Inner tubes	10 cents per pound	9 cents per pound.
5. Tread rubber	5 cents per pound	No tax.
c. Trucks and truck parts:		
1. Trucks and trailers	10 percent of manufacturer's sale price.	5 percent of manufacturer's sale price.
2. Parts and accessories	8 percent of manufacturer's sale price.	5 percent of manufacturer's sale price.
d. Use tax on heavy vehicles	$3 per 1,000 pounds per year, if more than 26,000 pounds.	No tax.

Administration Proposal

Under the Administration proposal, the present rates of tax for highway user excise taxes would be extended beyond October 1, 1984, and amounts collected would be transferred to the Highway Trust Fund beyond fiscal year 1984. Specific tax legislation is currently under review within the Administration.

In addition, the proposal would terminate as of January 1, 1983, the excise tax exemption for gasoline sold in a gasohol mixture or used in producing such a mixture.

3. Federalism Trust Fund and Federal Excise Taxes

Present Law

Aid to State and local governments for specific purposes

Most Federal funds distributed to State and local governments are appropriated from the general funds of the Treasury, are made available for specific purposes, and often are distributed in accordance with a formula applicable to all States or appropriate local jurisdictions, or are distributed for projects that meet certain criteria for eligibility. In addition, some Federal funds are distributed to State and local governments from trust funds that were established to carry out specific functions, such as the Highway Trust Fund for various highway transportation purposes and the Airport and Airway Trust Fund for the Federal airport and airway system. Such trust funds usually are financed with earmarked tax revenues.

For example, the Highway Trust Fund, discussed above, is composed of designated Federal excise tax revenues that are appropriated to the trust fund for spending on the Federal-aid highway system. The basic purpose of the trust fund is construction of the Interstate Highway System and additions to other Federal-aid highway systems. Funds are allocated among the States according to a formula specified in the law. Funds are made available to liquidate contractual obligations arising from construction of authorized segments of the Federal-aid highway system. Design and construction of the highways must conform with Federal criteria.

General revenue sharing

The General Revenue Sharing Trust Fund was established in 1972 to provide funds that State and local governments would allocate among several general government activities as the governmental units believe meets their needs. Funds are appropriated from Federal individual income tax receipts annually in amounts specified by statute, and distributed among eligible governmental units according to a formula that takes into account the population, income per capita and tax effort. They are allocated to States based on formulations which take into account tax effort, total population, urbanized population, per capita income and tax effort. Prior to fiscal year 1981, State governments received one-third of the allocation and local units of government two-thirds. Beginnning in fiscal year 1981 funds go only to local units of government. They are allocated on the basis of a formula which uses population, per capita income and tax effort.

Local governments may use general revenue sharing funds for any purpose that they may legally spend funds derived through their own local revenue-raising activities.

Total Federal assistance to State and local governments

From fiscal years 1975 through 1981, outlays for Federal grants-in-aid and general revenue sharing to State and local goverments rose from $49.8 billion to $94.8 billion. As a percentage of total budget outlays, these grants varied between 14.4 percent in fiscal year 1981 and 17.4 percent in 1978. For fiscal year 1982, oulays for these grants are estimated at $91.2 billion, and $81.4 billion in fiscal year 1983. In these two years, the grants are estimated at 12.6 and 10.7 percent of total budget outlays.

Administration Proposal

Federalism Trust Fund

The Administration would earmark $28 billion in excise tax revenues to a new Federalism Trust Fund, starting in fiscal year 1984. All revenues from the current alcohol, tobacco and telephone excise taxes would be deposited in the trust fund, plus 2 cents of the 4-cents-per-gallon tax on gasoline and other motor fuels (assuming extension of the 4 cents tax rate beyond September 30, 1984), and a portion of the crude oil windfall profit tax receipts to assure $28 billion annually.

After fiscal year 1987, the Federal excise taxes deposited in the Federalism Trust Fund would start to phase out, by 25 percent each year, and disappear after 1991. The trust fund also would go out of existence after 1991. During the four-year phaseout of the trust fund, the States would be able to impose the same excise taxes or any other taxes they would choose to maintain the same level of revenues from their own sources as they had been receiving from the trust fund.

During a transition period of fiscal years 1984–1987, the States could use their trust fund money in either of the following two ways: (1) Each State could continue to receive some or all Federal grants designated for turnback and use the trust fund money to reimburse the Federal agencies that make those grants, while abiding by Federal conditions and rules, or (2) each State could forego the Federal grant programs and receive its share of trust fund revenues directly for use as it would consider to be appropriate, in which case there would be a mandatory passthrough of part of these funds to local governments.

Turnback of expenditure functions

In exchange for the proposed turnback of Federal revenue sources, initially through the Federalism Trust Fund, the turnback of spending responsibility to State and local governments would cover 44 programs in 6 functional categories.

The turnback programs, by functional categories, would be the following:

(1) *Education and training (5 programs).*—Vocational rehabilitation; vocational and adult education; State block grants; CETA, and WIN.

(2) *Income assistance.*—Low-income home energy assistance.

(3) *Social, health and nutrition services (18 programs).*—Child nutrition; child welfare; adoption assistance; foster care; runaway

youth; child abuse; social services block grant; legal services; community services block grant; prevention block grant; alcohol, drug abuse and mental health block grant; primary care block grant; primary care research and development; black lung clinics; migrant health clinics; family planning, and women, infants and children (WIC).

(4) *Transportation (12 programs).*—Grants-in-aid for airports; highways: primary, rural, urban, bridge, construction safety, highway safety, other; interstate transfer; Appalachian highways; urban mass transit capital and operating programs.

(5) *Community development and facilities (6 programs).*—Water and sewer grants and loans; community facility loans; community development block grants; urban development action grants, and waste water treatment grants.

(6) *Revenue sharing and technical assistance (2 programs).*—OSHA grants, and general revenue sharing.

Federal program responsibility

In addition, the Federal Government would assume full responsibility for the Medicaid program, and the States would be expected to assume full responsibility for the Food Stamp program, presently federally-financed and State-administered, and Aid to Families with Dependent Children (AFDC), now financed jointly by Federal and State Governments.

Excise taxes earmarked for proposed Federalism Trust Fund

The proposed trust fund would be financed initially with the receipts from present law excise taxes on alcohol, tobacco, telephones, one-half of the gasoline tax, and a portion of the crude oil windfall profits tax.

A summary of these excise taxes follows.

Alcohol taxes:	
Distilled spirits	$10.50 per proof gallon.
Beer	$9.00 per barrel generally.[1]
Still wines:	
Up to 14 percent alcohol	17 cents per wine gallon.
14 to 21 percent alcohol	67 cents per wine gallon.
21 to 24 percent alcohol	$2.25 per wine gallon.
Champagne and sparkling wines.	$3.40 per wine gallon.
Artifically carbonated wines	$2.40 per wine gallon.
Alcohol occupational taxes:	
Brewers	$110 a year; $55 for less than 500 barrels a year.
Still manufacturers	$55 a year plus $22 per still.
Wholesale dealers:	
Liquors and wines	$255 a year.
Beer	$123 a year.
Retail dealers:	
Liquors and wines	$54 a year.
Beer	$24 a year.
Tobacco taxes:	
Small cigars	75 cents per thousand.

Large cigars	8½ percent of wholesale price, up to $20 per thousand.
Small cigarettes	$4 per thousand.
Large cigarettes	$8.40 per thousand.
Cigarette papers	½ cent per 50 papers.
Cigarette tubes	1 cent per 50 tubes.
Telephone taxes:	
Local and toll telephone service and teletypewriter service.	1 percent, 1982–84.
Gasoline and other motor fuels taxes:	
Through September 30, 1984	4 cents per gallon.
On and after October 1, 1984	1½ cents per gallon.
Crude oil windfall profit tax:	
Tier 1 (old oil)	70 percent; 50 percent for independent producers through 1982; no tax thereafter.
Tier 2 (stripper or from national petroleum reserve).	60 percent; 30 percent for independent producers.
Tier 3 (new oil)	30 percent in 1982, 27½ percent in 1983, 22½ percent in 1984, 20 percent in 1985, and 15 percent in 1986 and thereafter.
	30 percent on heavy and tertiary oil.

[1] $7 per barrel for certain small brewers.

The entire windfall profit tax will phase out over a 33-month period after December 31, 1987, or when cumulative net revenues raised by the tax reach $277.3 billion, whichever is later. The phaseout will begin no later than 1991.

Generally, collections from the excise taxes proposed for the Federalism Trust Fund, except for the windfall profit tax, indicate a pattern of falling receipts. From $14 billion in fiscal 1979 and $16.5 billion in fiscal 1980, the estimated excise tax revenues decline to a range of $13.1 billion to $13.5 billion in fiscal years 1981–1983. The estimates for fiscal years 1982 and 1983 are shown in the following table, compared with actual collections for fiscal years 1979, 1980, and 1981.

COLLECTIONS FROM EXCISE TAXES PROPOSED FOR FEDERALISM TRUST FUND IN FISCAL YEARS 1979–1983

[Millions of dollars]

	Fiscal years				
	Actual			Estimated	
	1979	1980	1981	1982	1983
Alcohol taxes:					
Distilled spirits	3,909	3,919	3,819	4,182	4,080
Wine	198	211	244	243	245
Beer	1,502	1,545	1,604	1,672	1,644
Refunds	−117	−104	−82	−84	−87
Total alcohol taxes	5,492	5,571	5,585	6,013	5,882
Tobacco taxes:					
Cigarettes	2,455	2,403	2,539	2,694	2,622
Cigars	36	40	41	40	40
Imports, papers and tubes	4	4	4	4	4
Refunds	−3	−4	−3	−3	−3
Total tobacco taxes	2,492	2,443	2,581	2,735	2,663
Gasoline tax [1]	4,368	3,900	3,889	3,858	3,810
Diesel and special fuels [1]	497	523	561	575	613
Telephone and teletypewriter services	1,362	1,118	999	796	656
Windfall profit tax [1]		5,959	[2]23,273	24,116	21,245
Grand Total	14,211	19,514	36,888	38,093	34,869

[1] Net of refunds.

[2] Fiscal year 1983 Budget figure.

Source: Annual Reports of Commissioner of the Internal Revenue Service for fiscal years 1979–80; Budget for fiscal year 1983 for fiscal years 1981, 1982 and 1983.

D. Employment Taxes

1. Extension of Social Security Hospital Insurance Taxes to Federal Employees

Present Law

The Federal Insurance Contributions Act (FICA) imposes two employment taxes on employers and employees: a "social security" tax and a "hospital insurance" tax. The two FICA taxes are imposed on wages paid for employment, and both taxes are imposed at rates which are the same for both employer and employee.[1] The amount of wages taxable for a calendar year is subject to a limit ($32,400 for 1982) which is adjusted each year according to the increase in average wage levels.

Revenues from the social security FICA tax are deposited into the Old-Age and Survivors Insurance and the Disability Insurance Trust Funds and finance the payment of old-age, survivors, and disability insurance benefits payable under the Social Security Act. This tax is imposed at the rate of 5.4 percent of wages received from employment during calendar years 1982-1984, 5.7 percent of wages received during the years 1985-1989, and 6.2 percent of wages received after December 31, 1989.

Revenues from the hospital insurance FICA tax are deposited into the Hospital Insurance Trust Fund and finance the costs of hospital and related post-hospital services (Part A of Medicare) incurred by beneficiaries as provided for in the Social Security Act. This tax is imposed at the rate of 1.3 percent of wages received from employment during the calendar years 1982-1984, 1.35 percent of wages received during 1985, and 1.45 percent of wages received after December 31, 1985.

Eligibility for social security and Medicare benefits is generally determined by the number of quarters during which an individual (and his employer) has paid FICA taxes.

In general, wages from all kinds of employment are subject to FICA taxes. However, certain types of employment or trades or businesses are exempt from social security coverage. Individuals employed by the United States or any instrumentality of the United States, other than members of the uniformed services, are generally excluded from paying FICA taxes if (1) the employment comes under a retirement system established by a law of the United States, (2) the service is performed for certain U.S. instrumentalities that were exempt from tax in 1950, and for which the instrumentality has established a retirement system, or (3) the service is performed by certain specific individuals or groups.

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[1] The Self-Employment Contributions Act imposes two similar taxes on self-employed individuals at rates different from the FICA tax rates.

Administration Proposal

Under the proposal, all Federal employees would be subject to the hospital insurance FICA tax, effective January 1, 1983. Thus, Federal employees who meet the eligibility requirements, and their families, eventually would be entitled to Medicare (Part A) benefits.

2. Revision of Railroad Retirement System

Present Law

The railroad retirement system, which is administered by the Federal Railroad Retirement Board, provides benefits that are generally equivalent to a combination of social security, unemployment insurance, and a multi-employer industry pension plan. Railroad employees and employers pay taxes to the railroad retirement system that are generally equivalent to social security taxes (Tier 1). Employers also pay a (Tier 2) tax of 11.75 percent of monthly taxable compensation to the industry plan; the employee Tier 2 tax is 2 percent.

Administration Proposal

Under the Administration proposal, railroad employees would be treated like all other private sector employees; that is, they would be provided with social insurance through social security and regular State unemployment insurance programs. Thus, they and their employers would be liable for social security and Federal and State unemployment insurance taxes rather than railroad retirement taxes. The Administration also proposes to return the rail industry's plan to the private sector, so that the Tier 2 taxes would be eliminated.

The proposal would be effective beginning October 1, 1982.

E. User Charges

1. Coast Guard User Fees

Present Law

Currently, no charge is made for most services provided by the Coast Guard for the public, such as issuing licenses, inspecting facilities, certifying vessel construction, maintaining aids to navigation, and providing rescue and assistance service.

Administration Proposal

Under the proposal, the Secretary of Transportation would be granted administrative authority to institute user fees for certain Coast Guard services. Fees for direct services involving a transaction (e.g., licenses and inspections) would be set according to the cost of providing the services. Other services performed by the Coast Guard (e.g., maintaining navigation aids and providing search and rescue services) would be financed by an annual fee or other type of charge.

2. Navigation User Fees

Present Law

Locks, dams and channels are constructed and maintained by the Corps of Engineers and the Tennessee Valley Authority for barge traffic on the inland and intracoastal waterways The Corps also dredges harbor channels and constructs and maintains other facilities for ocean-going and Great Lakes traffic. Construction and upkeep of both inland and deep draft waterways are financed by a tax on fuels used in a vessel in commercial inland and intracoastal waterway transportation or with funds appropriated from the general fund of the Treasury Department. The fuels tax is deposited in the Inland Waterways Trust Fund from which appropriations are made for these purposes. The fuels tax presently is 6 cents per gallon, and is scheduled to increase to 8 cents on October 1, 1983, and to 10 cents on October 1, 1985.

Administration Proposal

The proposal would grant the Secretaries of the Army and Transportation administrative authority to establish a system of user fees to offset the cost of outlays for construction, maintenance, and various services related to inland and deep-draft waterways. Amounts raised by these user fees would be deposited into the Inland Waterways Trust Fund. They would be recorded in the budget accounts as offsetting receipts to outlays for construction, operation, and maintenance of inland and deep-draft waterways.

The Administration has proposed a reduced funding level for some navigation projects, and additional funding will be requested when adequate reimbursement for navigation project operation and maintenance is available through establishment of user fees.

3. Nuclear Waste Disposal fee

Present Law

User fees are not imposed at present on electric utilities which produce nuclear waste materials as a byproduct of electricity generation. The Department of Energy currently is conducting a program designed to develop and implement nuclear waste disposal technology, and general revenues bear the cost of this program.

Administration Proposal

The Administration legislative program includes support for S. 1662. This bill would require the Secretary of Commerce to impose a fee, now estimated at one mill per kilowatt hour, on electricity generated by civilian nuclear power plants. The proceeds of this fee, estimated by the Administration to be $300 million in 1983 and $657 million in 1987, would be used to establish a self-sustaining fund for developing alternative nuclear waste disposal technologies and operating nuclear waste repositories.

4. Energy Regulatory Fees

Present Law

The Federal Energy Regulatory Commission (FERC) issues permits and licenses and sets rates for producer sales of natural gas, operation of oil and natural gas pipelines, development of hydroelectric power, and interstate wholesale sales of electric power. Fees are now charged for certain of the commission's services and for certain pipeline and hydropower activities.

Administration Proposal

The Administration will propose legislation that would authorize FERC to set user fee schedules for licensing and other FERC activities and to retain the receipts so that the agency would become self-supporting. FERC would establish new fees applicable to companies making license and other applications. Fee schedules would be expanded to include services such as electric and natural gas rate determinations not now subject to fees. For services such as pipeline approvals and hydropower licenses, existing fees would be increased substantially. The Administration estimates that these proposed changes would raise $35 million in 1983 and would cover roughly two-thirds of the cost of the FERC's programs.

5. Recreation User Fees

Present Law

Several Federal agencies, e.g., National Park Service, provide outdoor recreational facilities for the public. However, present law restricts the number of facilities for which entrance or admissions fees may be charged. In addition, the fees actually imposed (generally $3 per visit or $10 for an annual Golden Eagle passport) do not cover all the costs of providing such facilities.

Administration Proposal

The Administration will submit a proposal to increase existing entrance and user fees and expand the number of facilities for which fees may be charged. Under the proposal, authority will be sought to adjust fees for inflation and set comparable fees for comparable areas and facilities. The Administration intends that the receipts from these fees will be used in the budget accounts to offset outlays for recreational resources.

6. Patent and Trademark Fees

Present Law

Applications for patent protection and trademark registration are processed by the Patent and Trademark Office (PTO). Although PTO is authorized to impose application and issuance fees, those fees do not cover all the actual processing costs incurred.

Administration Proposal

The Administration will submit a proposal to increase the patent and trademark application and issuance costs to cover actual processing costs. With respect to patents, 50 percent of the costs would be payable prior to the issuance of the patent, and the remainder would be recovered over the life of the patent.

7. Passport and Visa Fees

Present Law

Passport fees are generally limited to $15, and immigrant visa fees are generally limited to $25.

Administration Proposal

The Administration has proposed to increase passport fees to $30, effective April 1, 1982, and to increase immigrant visa fees to $100, effective March 1, 1982. The increase in passport fees requires legislation, but visa fees may be increased under existing administrative authority.

8. Other User Fees

Present Law

Some Federal Government programs and activities provide services that benefit identifiable specific industries or economic groups. User fees have been charged only for some of these programs. Where fees have been charged, the rates have not been changed since instituted or were revised last in the late 1960's or early 1970's.

Administration Proposal

The Administration intends to submit proposals to increase or institute additional user fees, beginning in 1983 that would:

(1) gradually increase charges for maps and charts issued by the National Oceanic and Atmospheric Administration (NOAA) to achieve full cost recovery by 1986;

(2) authorize the Federal Mediation and Conciliation Service (FMCS) and the National Mediation Board (NMB) to impose fees equal to the total costs of services provided;

(3) impose a 0.5 percent funding fee on residential housing loans guaranteed pursuant to the Veterans Administration's Loan Guarantee Program;

(4) initiate transaction fees and licenses to cover the full cost of the regulatory operations of the Commodity Futures Trading Commission; and

(5) increase the commitment authority application fees and annual guarantee fees currently charged to securities issuers by the Government National Mortgage Association (GNMA) and to impose an additional fee on new GNMA securities issuers.

PART IV

DESCRIPTION OF DEBT MANAGEMENT PROPOSALS

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Market-based savings bonds.

Current law and background:

Under present law the administration has discretionary authority to increase the maximum rate of interest on savings bonds by not more than 1 percentage point in any 6-month period. This limitation was enacted in 1980 (Public Law 96–377) to replace a prior law ceiling of 7 percent. The savings bond rate was increased to 8 percent on November 1, 1980, and to the current maximum rate of 9 percent on May 1, 1981. When the maximum savings bond rate is increased, holders of outstanding savings bonds automatically benefit from the higher rate. The volume of savings bonds outstanding increased steadily during the 1970's to reach a peak of $80.4 billion at the end of fiscal year 1979. At the end of fiscal year 1981 the volume outstanding was $68.0 billion.

Description of proposal:

The administration has proposed legislation to permit linking interest rates on savings bonds to market rates of interest. Holders of savings bonds would be guaranteed minimum rates which would gradually rise through the first 5 years after purchase. All bonds held for longer than 5 years would earn interest at a rate equal to 85 percent of the average market yield on 5-year Treasury securities during the holding period, or the guaranteed minimum rate, whichever is higher. Existing savings bonds held for an additional 5-year period would also be eligible for interest payments under the new system. All other features of savings bonds—including denominations, deferral of tax on accelerated interest, and payroll savings plans—would remain the same.

Impact:

The administration estimates that its proposal will increase interest payments to holders of savings bonds but reduce borrowing costs for other marketable securities. Outlays for this proposal are positive in 1987 but are expected to be negative again in future years.

OUTLAYS FOR INTEREST ON THE PUBLIC DEBT

[Millions of dollars]

	Fiscal year				
	1983	1984	1985	1986	1987
Market-based savings bonds	–329	–691	–859	–976	764

Effective date:

Date of enactment.

Long-term bonds.

Current law and background:

Under present law there is a $70 billion limit on the outstanding volume of privately held, marketable bonds (securities with a term to maturity of 10 years or more when issued) that carry an interest rate in excess of a 4¼ percent statutory ceiling. The Treasury has exhausted this statutory authority.

Description of proposal:

The administration has proposed that the 4¼ percent interest rate ceiling on long-term bonds be repealed.

Impact:

The administration has made no estimate of the effect of this proposal on outlays for interest on the public debt.

Effective date:

Date of enactment.

Appendix A

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 (PUBLIC LAW 93-344)—AN OVERVIEW

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 (PUBLIC LAW 93-344)

1. AN OVERVIEW

OUTLINE OF CONGRESSIONAL BUDGET PROCESS UNDER PUBLIC LAW 93-344

On April 15 of each year, the Budget Committees of the House and Senate report to their respective Houses a concurrent resolution which is, in effect, a congressional budget document setting forth appropriate levels for spending revenues and public debt for the coming fiscal year. The spending levels are broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee are subject to debate and amendment. When agreed to by the House and Senate (by May 15), the resolution represents congressional judgment of the appropriate fiscal situation for the coming year, although the amounts set forth in it are not otherwise binding.

After the May 15 adoption of the concurrent resolution, action on spending and revenue bills proceeds through early September. In the first half of September, a second concurrent resolution on the budget is considered by the Congress, which revises or reaffirms the earlier resolution and which can direct the appropriate committee to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, committees directed to do so are to report the legislation called for by the resolution, and this legislation is then debated by Congress as part of a "reconciliation bill." Public Law 93-344 calls for action on this reconciliation bill to be completed by September 25, 5 days before the start of the new Federal fiscal year which will run from October 1 to September 30.

WAIVER OF RULES REGARDING BUDGET PROCEDURE

All the rules applicable to House procedures under the Congressional Budget Act can be suspended by a majority vote of the House. In addition, the act includes a special waiver procedure in connection with the provisions requiring that authorization bills not be acted on after May 15 and that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before May 15. If a committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for waiver of the rule. This resolution would be referred to the Budget Committee which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is approved by the Budget Committee (or after 10 days in any case), the resolution of waiver would be voted upon by the House, and, if it is approved, the House could proceed to consider the legislation.

2. IMPACT OF PUBLIC LAW 93-344 ON WAYS AND MEANS COMMITTEE

LEGISLATION WHICH RESULTS IN ADDITIONAL FEDERAL SPENDING

Annual report to Budget Committee.—Each year, prior to the consideration of the first concurrent resolution on the budget, each committee is required to make a report to the Budget Committee estimating the amount of additional Federal spending during the coming fiscal year which will result from legislation under the committee's jurisdiction. This report is due no later than March 15.

Report after adoption of concurrent budget resolution.—The conference report on each budget resolution allocates the outlay and budget authority totals among the various committees. Each committee is then required, after consultation with the appropriate counterpart committee in the Senate, to subdivide its allocation of new budget authority and outlays among the programs under its jurisdiction (or among its subcommittees). These allocations subsequently serve as the basis for scorekeeping reports and for judging whether particular legislative proposals are consistent with the budget resolution.

Limitation on consideration of spending bill.—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the House prior to the May 15 adoption of the first concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the House of Representatives to suspend this rule. The act also requires that action on legislation of this type be completed by the seventh day after Labor Day. In addition, entitlement legislation (other than trust fund legislation) reported after January 1 of any year may not have an effective date prior to October 1 of that year.

Deadline for reporting authorizing legislation.—Legislation which authorizes appropriations (but does not necessarily require them) has to be reported by May 15 preceding the fiscal year for which the appropriations are authorized. (The act includes a procedure under which this deadline may be waived by House resolution; the rule may also be suspended by a majority vote of the House.) The Committee on Ways and Means has jurisdiction over some programs which fall in this category, such as grants to States for child welfare services. However, if such authorizations are included in entitlement or trust fund bills (which may not be reported prior to May 15), this provision does not apply.

Impact of concurrent budget resolutions on legislation.—The first concurrent resolution, which is to be passed about May 15, sets targets for spending in various areas.

While the budget totals included in the first resolution are in the nature of targets and are not strictly mandatory, they tend to establish fairly firmly the guidelines within which the Congress considers legislation affecting revenues and spending. Thus, if unrealistic objectives are used in setting first resolution totals, committees, may subsequently find their ability to act on desired legislation impaired.

A second concurrent resolution is to be passed in mid-September, and this resolution not only sets appropriate spending levels but may direct the committees having jurisdiction over spending legislation to report measures to rescind previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Ways and Means, this may include a requirement that the committee report legislation to defer or reduce benefits under entitlement programs including both trust fund programs (such as unemployment insurance or social security) and non-trust-fund programs (such as welfare or social services).

After the beginning of a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution passed just before the beginning of that year to be exceeded. In the case of the Committee on Ways and Means, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new concurrent resolution could, however, be passed to authorize such additional spending, or the rule could be suspended by a majority vote of the House.)

Appropriations Committee review of entitlement bills.—Legislation in such areas as supplemental security income, welfare, or social services creates an entitlement to payments on the part of individuals or State or local governments even though these programs are funded through appropriation acts. The Congressional Budget Act requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the first budget resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such amendment is approved by the House, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues.

Report on spending legislation.—The Congressional Budget Act requires the committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent concurrent budget resolution. In addition, the report is required, to the extent practicable, to provide a projection for five fiscal years of the spending which will result from the legislation.

Annual report to the Budget Committee.—The March 15 annual report to the Budget Committee which is described above also must, in the case of the Ways and Means Committee, present views and estimates of the committee with regard to revenues and the debt limit.

No revenue legislation prior to May 15.—Under the Budget Act, debt limit or revenue legislation for the upcoming fiscal year is not in order for consideration by the House (or Senate) prior to the adoption of the first concurrent resolution on the budget (about May 15). This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the House.)

Impact of budget resolution.—As with spending measures, the first concurrent resolution adopted in mid-May sets targets with respect to revenue and debt limit legislation, and the second concurrent resolution in September may direct the Committee on Ways and Means to report legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determines to be appropriate. Such legislation would have to be reported in time to be included in the reconciliation bill which would be acted upon before the October 1 start of the fiscal year. Once a second resolution on the budget is adopted by the Congress, any legislation which would cause the total revenues to be reduced below the level specified in the budget resolution would be subject to a point of order. If the second budget resolution set a revenue target which exactly matches the projected revenues under existing law (or any expected modifications to existing law), even minor bills having nearly negligible revenue impacts can be rejected on a point of order. As indicated above in describing the impact of the resolution on spending legislation, even the "nonmandatory" first resolution tends to be given great weight in the actual consideration of legislation. Thus, if the first resolution includes unrealistic revenue goals, the committee may face difficulties in the consideration of any revenue legislation.

Required report on tax expenditures.—The Congressional Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the committee report accompanying legislation to provide new or increased tax expenditures include information as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to the extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years.

EXCERPT FROM PUBLIC LAW 93-344—THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

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TITLE III—CONGRESSIONAL BUDGET PROCESS

Timetable

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
November 10	President submits current services budget.
15th day after Congress meets	President submits his budget.
March 15	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 15	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15	Congress completes action on second required concurrent resolution on the budget.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

Adoption of First Concurrent Resolution

SEC. 301. (a) ACTION TO BE COMPLETED BY MAY 15.—On or before May 15 of each year, the Congress shall complete action on the first concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth—

(1) The appropriate level of total budget outlays and of total new budget authority;

(2) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intragovernmental transactions, based on allocations of the appropriate level of total budget outlays and of total new budget authority;

(3) the amount, if any, of the surplus or the deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;

(4) the recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(5) the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased by bills and resolutions to be reported by the appropriate committees; and

(6) such other matters relating to the budget as may be appropriate to carry out the purposes of this Act.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The first concurrent resolution on the budget may also require—

(1) a procedure under which all or certain bills and resolutions providing new budget authority or providing new spending authority described in section 401(c)(2)(C) for such fiscal year shall not be enrolled until the concurrent resolution required to be reported under section 310(a) has been agreed to, and, if a reconciliation bill or reconciliation resolution, or both, are required to be reported under section 310(c), until Congress has completed action on that bill or resolution, or both; and

(2) any other procedure which is considered appropriate to carry out the purposes of this Act.

Not later than the close of the Ninety-fifth Congress, the Committee on the Budget of each House shall report to its House on the implementation of procedures described in this subsection.

(c) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before March 15 of each year, each standing committee of the House of Representatives shall submit to the Committee on the Budget of the House, each standing committee of the Senate shall submit to the Committee on the Budget of the Senate, and the Joint Economic Committee and Joint Committee on Taxation shall submit to the Committees on the Budget of both Houses—

(1) its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within the respective jurisdiction or functions of such committee or joint committee; and

(2) except in the case of such joint committees, the estimate of the total amounts of new budget authority, and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within the jurisdiction of such committee which such committee intends to be effective during the fiscal year beginning on October 1 of such year.

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TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

Bills Providing New Spending Authority

SEC. 401. (a) LEGISLATION PROVIDING CONTRACT OR BORROWING AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, or amendment also provides that such new spending authority is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) LEGISLATION PROVIDING ENTITLEMENT AUTHORITY.—

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority) which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be requested for such fiscal year if such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day on which that House is not in session) beginning with the day following the day on which it is so referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall automatically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

(c) DEFINITIONS.—

(1) For purposes of this section, the term "new spending authority" means spending authority not provided by law on the effective date of this section, including any increase in or addition to spending authority provided by law on such date.

(2) For purposes of paragraph (1), the term "spending authority" means authority (whether temporary or permanent)—

(A) to enter into contracts under which the United States is obligated to make outlays, the budget authority for which is not provided in advance by appropriation Acts;

(B) to incur indebtedness (other than indebtedness incurred under the Second Liberty Bond Act) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts; and

(C) to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law.

Such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(d) EXCEPTIONS.—

(1) Subsections (a) and (b) shall not apply to new spending authority if the budget authority for outlays which will result from such new spending authority is derived—

(A) from a trust fund established by the Social Security Act (as in effect on the date of the enactment of this Act); or

(B) from any other trust fund, 90 percent or more of the receipts of which consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such outlays are or will be made) received in the Treasury under specified provisions of the Internal Revenue Code of 1954.

(2) Subsections (a) and (b) shall not apply to new spending authority which is an amendment to or extension of the State and Local Assistance Act of 1972, or a continuation of the program of fiscal assistance to State and local governments provided by that Act, to the extent so provided in the bill or resolution providing such authority.

(3) Subsections (a) and (b) shall not apply to new spending authority to the extent that—

(A) the outlays resulting therefrom are made by an organization which is (i) a mixed-ownership Government corporation (as defined in section 201 of the Government Corporation Control Act), or (ii) a wholly owned Government corporation (as defined in section 101 of such Act) which is specifically exempted by law from compliance with any or all of the provisions of that Act; or

(B) the outlays resulting therefrom consist exclusively of the proceeds of gifts or bequests made to the United States for a specific purpose.

Appendix B

COMMITTEE ON WAYS AND MEANS MARCH 15, 1981, REPORT TO THE BUDGET COMMITTEE WITH RESPECT TO FISCAL YEAR 1982

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 19, 1981.

Hon. JAMES R. JONES,
Chairman, Committee on the Budget,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Ways and Means on those aspects of the Federal budget for fiscal year 1982 which fall within the Committee's jurisdiction as is required by section 301(c) of the Congressional Budget Act of 1974.

Economic assumptions.—Many of the elements of the budget totals are highly susceptible to relatively slight changes in economic conditions. As you know, the economic assumptions underlying the Administration's budget revisions have been the subject of some controversy. Various experts who have appeared before the Committee disagreed as to the appropriateness of the Administration's assumptions, particularly as to the fiscal years beyond 1982.

Nevertheless, for purposes of making its estimates in conjunction with the first concurrent resolution on the budget, the Committee has used the Administration's assumptions to determine current law revenues and program outlays. While the President's economic assumptions have been used as a basis for estimating revenues, income and outlays for such programs as unemployment compensation, social security and medicare, we recognize that the Budget Committee may decide to base its estimates on somewhat different assumptions. To the extent that this is done, appropriate adjustments should be made in the revenue and outlay estimates.

TABLE 1.—RECOMMENDATIONS CONCERNING BUDGET REDUCTIONS: FISCAL YEAR 1982

[In billions]

Functional category	Budget authority	Outlays
500 Education, training, employment and social services	$4.4	$4.4
New legislation		−0.2
550 Health	56.8	48.2
New legislation		−1.1
600 Income security	193.8	196.6
New legislation		−6.5
800 General government	(1)	(1)
850 General purpose fiscal assistance	0.3	0.3
900 Interest	82.5	82.5
Total net reductions in outlays		−7.8
Reduction in tax expenditures (Function 600)		−1.0
Total reductions		−8.8

[1] Less than $50 million.

Outlays by function.—As indicated in Table 1, the Committee on Ways and Means has jurisdictional responsibility over a broad range of programs with budget outlays classified in several different function categories. Among the major programs within the jurisdiction of the Committee are the various major entitlement programs authorized by the Social Security Act: the Old-Age, Survivors, and Disability Insurance program, the medicare program, the unemployment compensation program, Aid to Families With Dependent Children (including IV-B Child Welfare Services and IV-E Foster Care and Adoption Assistance), the Supplemental Security Income program and the Title XX social services program. In addition, the Committee has responsibility for Trade Adjustment Assistance and the Low-Income Energy Assistance program. Table 1 lists the Committee's estimate of budget authority and outlays without legislative action by the Committee. The line entitled "new legislation" is the Committee's estimate of the net impact of legislation that will be enacted affecting fiscal year 1982 budget estimates.

Function 500: Education, training, employment, and social services.—This category includes expenditures out of the Federal unemployment trust fund for administration of State Employment Services and unemployment compensation programs. In addition, Title XX social services, IV-B Child Welfare Services, the new IV-E Foster Care and Adoption Assistance program, and services for disabled SSI children are included in this function. The Committee is recommending a reduction of $200 million in outlays for programs in this function.

Function 550: Health.—In this function, the Committee has jurisdiction over the medicare program including the hospital insurance program (part A) and the supplementary medical insurance program (part B). The Committee recommends that the budget for fiscal year 1982 assume net outlay reductions in this function resulting from legislative changes of $1.1 billion. The Committee anticipates that it will make legislative changes which result in savings in medicare equal to the savings resulting from legislative changes proposed in the Reagan budget. The Committee has not examined the Administration's proposed reduction in outlays resulting from regulatory changes or changes in hospital review and assumes those reductions in current law solely for purposes of this report.

Function 600: Income security.—In this function, the Committee's jurisdiction includes the Old-Age, Survivors, and Disability Insurance program (OASDI), the Trade Adjustment Assistance programs, the Federal-State unemployment compensation system, the Aid to Families With Dependent Children program, the Supplemental Security Income program and the Low-Income Energy Assistance authorization, the Pension Benefit Guarantee Corporation Fund and the earned income tax credit available to certain low-income families. The Committee recommends that the budget for fiscal year 1982 assume net outlay reductions of $6.5 billion.

The refundable portion of the earned income tax credit is classified as an outlay under function 600. Because of the refundable feature of the earned income credit, any reduction in lower bracket tax rates or other changes in income taxes affecting lower income individuals will have the effect of increasing outlays. The Committee wishes to make the Budget Committee aware of this interaction between tax receipts and outlays and urges that increased earned income tax credit outlays be accommodated in the first budget resolution for fiscal year 1982. For example, the Administration's tax proposal would increase earned income tax credit outlays by $17 million. Other proposals pending before the Committee could increase outlays associated with the earned income credit by as much as $300 million.

In recommending reductions in the Old-Age, Survivors, and Disability Insurance programs in this functional area, the Committee wishes to caution the Budget Committee that the Committee's Subcommittee on Social Security is just now beginning its deliberations on this most complex and sensitive issue. The Committee's commitment to make reductions in this area may be in the form of reductions in outlays, increases in budget authority, or a combination of the two.

The recommended reduction in function 600 programs includes the amount by which the fiscal 1982 authorization of appropriations for Low-Income Energy Assistance is less than the $1.85 billion that was authorized and appropriated for fiscal year 1981.

Function 800: General government.—In this function, the Committee has jurisdiction over the authorization of appropriations for the Office of the U.S. Trade Representative, and the disposition of unclaimed and seized goods by the Customs Service. For these functions, the Committee recommends $17,480,000, the same amount as requested by the Administration.

Function 850: General purpose fiscal assistance.—In this function, the Committee has jurisdiction over the Customs Service's collection of customs revenues for Puerto Rico. The Committee recommendation of $92 million is the same as requested by the Administration.

Function 900: Interest.—The Administration has estimated interest outlays of $82.5 billion in fiscal year 1982. This estimate is based on a lower pattern of interest rates than was assumed in the January budget. The resulting reduction in estimated interest payments is partially offset by higher borrowing requirements. Should the Budget Committee change the assumptions with respect to the level and structure of interest rates or provide for larger or smaller deficits in fiscal year 1981 or fiscal year 1982, the provision for interest outlays in the budget resolution would have to be adjusted accordingly. The Committee notes that the Administration's estimate for interest outlays does not assume any modification in the interest rate on savings bonds. Under Public Law 96-377, the Administration has the authority to increase the interest rate on savings bonds as long as the increase in any six-month period does not exceed one percentage point. The Administration may be expected to exercise this authority should the Budget Committee project a higher level and structure of interest rates than has been assumed by the Administration. As a result, savings bond interest outlays and accruals would have to be raised.

Other matters.—The Committee is responsible for the authorization of appropriations for the International Trade Commission and the Customs Service (in addition to the Office of the Trade Representative, listed in function 800 above). For these two agencies, the Committee recommends $498,502,000, the same as requested by the Reagan Administration.

Also in the trade sector, the Committee has reviewed and approved the appropriations requested by the Administration for Trade Adjustment Assistance for firms ($51,430,000), for communities ($2,000,000), for the Department of Commerce's Administration and Trade Policy ($17,930,000), trade statistics activities of the Departments of Commerce and Labor ($12,458,000), and the U.S. contribution to the GATT ($2,809,000).

TABLE 2.—FISCAL YEAR 1982 WAYS AND MEANS REVENUE RECOMMENDATIONS

[In billions]

Present law	$701.6
Allowance for tax reduction legislation (net)	−50.3
Present law and legislation	651.3

Revenues.—In projecting a net reduction of revenues of $50.3 billion, the Committee seeks the flexibility to plan for a tax cut of the size recommended by the Administration. In doing so, however, the Committee wishes to caution the Budget Committee that its position is necessarily a tentative one at this time. If the overall level of outlay reduction sought by the Administration is not achieved, the Committee may have to reduce the size of the planned tax cut. To do otherwise would allow unacceptable increases in the size of the Federal deficit. Similarly, if revisions are made in the economic assumptions on which the currently projected deficit is based which would result in an increase in that deficit, adjustments will necessarily have to be made in the size of the tax cut.

The Committee wishes to point out to the Budget Committee that the level of outlays in the income security function recommended by the Committee is $1 billion higher than that recommended by the Administration. However, the Committee anticipates a reduction in related tax expenditures in function 600 which will, on a net basis, reduce the allowance for tax reduction legislation $1 billion below that recommended by the Administration. The budget deficit would, however, remain unchanged.

The Committee's allowance for tax reduction legislation includes $0.1 billion to cover various minor tax and tariff bills which may be enacted during this session of Congress.

TABLE 3.—BUDGETARY IMPACT OF COMMITTEE RECOMMENDATIONS

[In billions]

	Revenues	Outlays	Deficit
Present law	$701.6	$729	$27.4
President's budget	650.3	695	44.7
Ways and Means Committee recommendations	651.3	[1] 696	44.7

[1] Assumes enactment of proposed legislation in the President's budget not within the jurisdiction of the Committee on Ways and Means.

Budget impact.—As noted earlier, the Committee is committed to reducing the overall size of the deficit. As a result, it will watch very carefully the progress that is made in reducing outlays before taking final action on the size of its tax reduction bill. We share the President's commitment to a balanced budget in fiscal year 1984 and intend to proceed in a responsible manner toward that goal. Our actions on all spending issues and on revenue matters will be taken with full appreciation of the impact that both have on the size of the Federal deficit and its effect on inflation.

TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES IN PRESIDENT'S BUDGET

[In billions]

Budget deficit	$45.0
Deficit of off-budget Federal entities	16.7
Increase in Federal agency investment in Federal Debt	22.8
Less means of financing other than borrowing from the public	−1.7
Increase in gross Federal debt	82.8
Public debt limit:	
Debt subject to limit September 30,1981	987.4
Debt subject to limit September 30,1982	1,071.2

Note: The difference between September 30, 1981 and September 30, 1982 debt subject to limit and increase in gross Federal debt reflects a $1 billion reduction in debt not subject to limit.

Tax expenditures.—The report of the Joint Committee on Taxation on tax expenditures which serves as the Joint Committee's report to the Budget Committee is appended to this letter and is designed to assist the Budget Committee in meeting its obligations under section 301(d)(6) of the Budget Act.

Five-year budgetary outlook.—The magnitude and timing of the changes in outlays or expenditures which may result from changes in the law to be recommended by the Committee during this session of the Congress will depend heavily on the exact nature of each specific legislative change. The magnitude of these changes can be determined only after the entire process of substantive consideration by the Committee and the Congress is completed. Moreover, the budgetary estimates presented in this letter are net amounts which the Committee may ultimately achieve through legislative changes involving increased outlays in some cases and reductions in others.

Similarly, the revenue goal for the upcoming fiscal year is a net figure, the detailed composition and future year impact of which can be determined only after the Committee has completed consideration of various proposals. The Committee is particularly sensitive to the impact which legislative decisions made in one year can have on future year receipts. In the future, as in past years, it may be anticipated that revenue goals will be established which vary from year to year, depending upon the changing economic needs and conditions of the country.

The Committee recognizes that the Congressional Budget Act requires the Budget Committees to undertake an analysis of the five-year budgetary outlook and include such projections in their reports on the budget resolution. This is a useful and appropriate element in congressional consideration of broad budgetary perspectives. However, for the reasons cited above, the Committee believes that an attempt by substantive committees to provide detailed projections of the likely impact of legislative changes on future fiscal years would be a highly speculative exercise if done prior to actual legislative consideration. The Committee does recognize the importance of future year budgetary impact projections and believes that the Budget Act and the House Rules properly impose on substantive committees the obligation to make such projections when they have completed legislative consideration and are reporting a measure to the House of Representatives.

To assist the Budget Committee in carrying out its responsibilities and to help it in making assessments concerning the specific recommended reductions within the jurisdiction of the Committee on Ways and Means, I am enclosing a copy of Ways and Means Committee Print 97-2 entitled, "Background Material and Data on Major Programs Within the Jurisdiction of the Committee on Ways and Means." In addition, I am enclosing a copy of a background document, "Description of the Administration's Legislative Recommendations Under the Jurisdiction of the Ways and Means Committee." I hope you find this information useful; and as always, the Members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am

Sincerely yours,

DAN ROSTENKOWSKI, *Chairman.*

Appendix C

CBO REESTIMATES OF THE SAVINGS FOR SELECTED ADMINISTRATION PROPOSALS IN AFDC, SSI, AND MEDICARE

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., March 2, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Our response to your request of February 17 is attached. It includes reestimates of the savings for selected Administration proposals in AFDC, SSI, and Medicare. As we complete reestimates of the remaining proposals, they will be forwarded to your staff.

Should the Committee so desire, we would be pleased to provide further details on these estimates.

Sincerely,

ALICE M. RIVLIN, *Director.*

The CBO has not yet completed its reestimates of all of the pieces of proposed legislation in the Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and Medicare programs. The reestimates that have been completed are presented and discussed below. Even for these reestimates, savings are preliminary because we have no draft legislation as yet. As the remaining reestimates are completed, they will be forwarded to your staff.

AID TO FAMILIES WITH DEPENDENT CHILDREN AND CHILD SUPPORT ENFORCEMENT (AFDC AND CSE)

The CBO has reestimated savings from a number of the Administration's legislative proposals. Estimated savings are shown in the table below for those proposals for which reestimates have been completed. Reestimates of two of the CSE proposals and of four of the AFDC proposals have not yet been finalized.

ESTIMATED FEDERAL SAVINGS IN AFDC AND CSE

[By fiscal years, in millions of dollars]

	1982	1983	1984	1985
CWEP, AFDC–UP		52	107	103
CWEP, AFDC–single parent		15	22	23
Mandatory job search		9	19	20
Count energy assistance		30	33	36
Remove parent for quitting work [1]		1	1	1
Eliminate families with father in the military [2]		15	17	17
Prorate first month's benefit [2]		13	14	14
Round payments [2]		9	10	10

ESTIMATED FEDERAL SAVINGS IN AFDC AND CSE—Continued

[By fiscal years, in millions of dollars]

	1982	1983	1984	1985
Error rates [1]		234	105	167
Emergency assistance [1]		60	60	60
Combined welfare administration		106	181	261
CSE miscellaneous collections [1]		12	15	16

[1] Identical to the Administration's estimated savings.

[2] Identical to the Administration's estimated savings in all fiscal years except 1982 and 1983, which have been reduced for assumed implementation delays.

The CBO reestimates for the proposed tightening in work requirements show considerably fewer savings than are projected by the Administration. Estimates of savings for these proposals are highly uncertain and should be viewed as preliminary. Without draft legislation, we have had to make a number of assumptions about the scope of these requirements. Moreover, estimated savings are based on an assumption that some recipients will leave the program because of the requirement to participate in a community work experience program (CWEP) or to search for a job. Yet no good data on deterrence rates as a result of workfare exist for the AFDC population. As compared to the Administration's estimated savings, CBO's are lower for a number of reasons. First, the CBO estimates assume lower (10 percent) deterrence rates for women who head single-parent families (but similar 14 percent deterrence rates for AFDC-UP families). Second, the CBO estimates assume fewer single-parent families will be referred to CWEP jobs and required to participate in job search. Because states would have to pay the full cost of administering CWEP and because few have chosen to start up CWEP under current law, reduced program levels are assumed. Third, among the families who are affected by CWEP, CBO assumes that three-quarters of the single-parent families are sanctioned, losing only one family member's benefit (rather than assuming that families leave the program and lose the entire family's benefit). Finally, for the families affected by both CWEP and job search, job search is assumed to have no added effect on deterrence rates.

Increased administrative costs from the CWEP and job search requirements are not reflected in the Administration's 1983 budget request because of the proposal to fund AFDC administrative costs under a block grant fixed at 95 percent of 1982 costs. The added administrative costs would be borne entirely by the states and localities. These costs are very uncertain because they depend on the precise nature of the programs. Estimates are shown in the table below that are consistent with the program levels and savings assumed for CWEP and job search.

ESTIMATED ADMINISTRATIVE COSTS OF CWEP AND JOB SEARCH [1]

[By fiscal years, in millions of dollars]

	1982	1983	1984	1985
CWEP and job search		166	315	321

[1] Total administrative costs; all costs are borne by the states and localities.

CBO estimates that the proposal to count energy assistance as income in AFDC will save considerably less than the Administration is estimating. The proposal will apparently count energy assistance up to the amount for heating and cooling in the states' payment standards. The Administration's estimates assume that all energy assistance received by AFDC families will be counted as income and offset benefits dollar for dollar. The CBO estimates assume, first, that some energy assistance will be used for weatherization, social services, and administration—as permitted in current law—and as a result will not be counted as income. Second, the CBO estimates assume that states will pay the energy assistance in a single lump sum, which will be well above the amounts for heating and cooling in the states' standards, and that the legislation will not require the states to prorate the lump sum across months. Consequently, only 25 percent of the energy assistance would be counted as income in AFDC.

The proposal for combined welfare administration shows higher CBO savings relative to the Administration. The CBO baseline estimate shows higher administrative outlays than does the 1983 budget, hence the higher savings as a result of the block grant for AFDC administrative costs. It should be noted that these different savings do not affect total program outlays, which carry the $845 million block grant for administration.

In addition to the reestimates discussed above, CBO has eliminated savings in fiscal year 1982 and reduced savings in 1983 to reflect implementation delays. An assumed July enactment date for the proposed legislation makes implementation before October improbable and delayed implementation beyond October likely in some states.

SUPPLEMENTAL SECURITY INCOME (SSI)

The table below shows CBO estimates of savings for each of the Administration's proposed changes in the SSI program. The estimated savings are below those in the Administration's budget primarily because CBO projects fewer beneficiaries under current law.

ESTIMATED FEDERAL SAVINGS IN SSI

[By fiscal years, in millions of dollars]

	1982	1983	1984	1985
Restrict $20 Disregard		14	55	90
Disability: 24 Month Prognosis	3	30	60	90

ESTIMATED FEDERAL SAVINGS IN SSI—Continued

[By fiscal years, in millions of dollars]

	1982	1983	1984	1985
Disability: Medical Factors	6	67	140	223
Prorate First Month's Benefit	10	26	28	32
Round Payments	3	20	45	70
Recover Overpayments		16	17	18
Hold Harmless	23	30	37	45
Retrospective Accounting Coordination	55	45	41	43
Total	100	248	423	611

MEDICARE

The CBO has not yet reestimated savings from the Administration's proposed legislation. Details of the proposals are presently unknown, making reestimation difficult.

The effects of these proposals are complex and often indirect. Although only a small portion of the Administration's Medicare proposals would directly reduce benefits, much of the savings would be achieved by shifting costs from the federal government to Medicare beneficiaries and other purchasers of health care. For example, the costs of requiring employers to offer primary insurance coverage to aged workers might be spread across all employees in the form of higher premiums or lower health coverage.

The potential for cost shifting is most significant in proposals that would reduce reimbursements to providers, although doctors and hospitals may absorb some of the reductions. The proposed lower reimbursement to physicians might lead to higher out-of-pocket costs for Medicare beneficiaries as the disparity between charges and Medicare reimbursement increases, making physicians less willing to accept assignment. Physicians currently accept assignment for only about half of Medicare claims, including claims for Medicaid beneficiaries, for which they must accept assignment. Lowering reimbursement for radiologists and pathologists to 80 percent of reasonable charges would increase costs to beneficiaries, who would have to pay the difference.

Hospitals would pass much of the proposed 2 percent reduction in reimbursements onto private payers by raising charges. In a few instances, Medicare beneficiaries could face reduced access to hospital care as a result of reimbursement cuts since hospitals with very high proportions of Medicare patients would have few private patients on whom to shift these reimbursement reductions.

Federal savings without cost-shifting are possible only through long-term reductions in the rate of growth of medical costs. An alternative strategy for achieving reductions in Medicare costs would establish incentives to health care providers to hold down costs. Such incentives could be introduced by rewarding hospitals that are effective in holding down costs. For example, reimbursing hospitals with the average cost for hospitals in an area would benefit lower-cost hospitals. In contrast, the Administration's proposal for a 2 percent reduction would lower reimbursements to all hospitals by an equal proportion, regardless of how well they contained costs.

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